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WORLD NEWS

South Korea's markets stage recovery on IMF loan hope

Seoul's financial markets have staged a strong recovery on suggestions that foreign donors to the IMF's $57bn bail-out were preparing to offer emergency bridging loans to prevent South Korea defaulting on overseas debt. Page 14; Korea's big chance, Page 12; Seoul rally, Page 34

Russia 'set for growth'
Russia's economy has weathered the global financial crisis and is set to start growing next year, predicted deputy PM Anatoly Chubais. Page 2

Milosevic faces opposition
Yugoslav president Slobodan Milosevic has run into opposition after trying to fire the government's leading reformist, deputy PM Danko Djunic. Page 2

French reject Bosnia charge
France told Louise Barbour, chief prosecutor at the International Criminal Tribunal for former Yugoslavia, that her allegations French troops had failed to arrest war criminals in their sector of Bosnia were "scandalous". Page 2; Editorial Comment, Page 13

IMF praises Italy
The IMF released an upbeat assessment of Italy's economy, saying "exceptional results" had been achieved in price stability and fiscal consolidation over the last year. Page 2

Tajik airliner crashes
A Tajik airliner has crashed in the desert near Sharjah airport in the United Arab Emirates, killing at least 80. The Tu-154 from state airline Tajikavia was preparing to land when it crashed nine miles from Sharjah airport.

Union battle worsens
A political brawl in Australia between the government, the opposition and the country's maritime union over an alleged covert operation to train "industrial mercenaries" in the United Arab Emirates escalated. Page 4

Indonesia market crackdown
Indonesia's brokers say they are cracking down on insider trading and other practices. Page 4; Lex, Page 14

Ortiz is Mexico bank chief
Mexican finance minister Guillermo Ortiz has unexpectedly been named to head the central Banco de Mexico. Page 7

Clinton's civil rights choice
In a bid to head off a bruising confrontation with Republicans over affirmative action, President Clinton appointed Bill Lann Lee as a new civil rights chief. Page 7

Asean tariff cuts
The Association of South-East Asian Nations is planning to accelerate cuts in regional tariffs to fight the economic crisis in the area. Page 4

US poverty on the rise
Hunger and homelessness are still rising in the US – and welfare reform is likely to make the situation worse next year, US mayors warned. Page 7

Lau gives up UK passport
Emily Lau, one of Hong Kong's leading pro-democracy politicians, is to give up her British citizenship to compete in legislative elections next year. Page 4

Olive branch from Iran
President Clinton responded to an olive branch from Iran's leadership, saying he would welcome a dialogue. Page 6

FTSE Actuaries table
The FTSE Actuaries table on the London Stock Exchange page contains Saturday figures because of technical problems. We apologise for the inconvenieoce. Page 30

BUSINESS NEWS

Ford in deal with Daimler to develop 'clean' fuel-cell cars

Ford is joining Germany's Daimler-Benz in an attempt to produce environmentally friendly electric vehicles by 2005 using fuel-cell technology in a partnership with Ballard Power Systems of Canada. Page 15

Security Capital Industrial Trust, largest quoted US investor in industrial property, is paying $395m for Prigoscandia AB of Sweden, Europe's top refrigerated warehouse operator. Page 15; Observer, Page 13

Diageo, formed by the $38bn merger of UK drinks companies Grand Metropolitan and Guinness, received conditional approval from US competition authorities, based on the sale of the Dewar's brands in the US. Page 21; Lex, Page 14

Royal Bank of Scotland is to sell its share registrars business to Computershare in exchange for a stake worth about A$56m ($37.5m) in the Australian software specialist. Page 21

Skanska, Sweden's leading construction group, is being asked by its two largest institutional shareholders to sell its non-core investment portfolio. Page 16

Big US manufacturers with sales and production bases in Europe see economic and monetary union as creating risks to business stability. Page 2

Czech brewers Plzensky Prazdroj, the market leader, and Radegast, 57 per cent owned by Nomura, the Japanese bank, were barred from merging after a competition complaint by Bass, the UK brewer. Page 16

Astra Merck, which markets Astra compounds in the US, plans an over-the-counter version of ulcer treatment Prilosec. Page 15

Discovery Channel is seeking a stake in the UK pay-TV operations of British Broadcasting Corporation as part of a $600m deal giving it the right to create channels based on BBC programmes. Page 8

Elan Corporation, Ireland-based pharmaceuticals company, has acquired Sano Corporation of the US for $375m, adding to its drug delivery systems. Page 20

Union Bank of Switzerland staff have been warned that "any negative behaviour" relating to its integration with Swiss Bank Corporation could result in a cut in their individual bonuses for 1997. Page 14

Bertelsmann, the media group, and Kirch, the television group, agreed to stop promotion of their digital pay-TV services in Germany after European Commission complaints. Page 3

Swiss Re, the reinsurance company, launched Switzerland's biggest share buy-back with a plan to spend SFr1bn ($690m) on repurchasing up to 3 per cent of its equity. Page 15

Bank of Spain continued its steady reduction of interest rates, cutting its benchmark rate by a quarter point to an historic low of 4.75 per cent. Page 3

Acer Peripherals president K.Y. Lee said Acer Group of Taiwan, one of the world's biggest computer makers, may move assembly work from mainland Europe to South Wales. Page 8

Japanese companies have withdrawn from a consortium bidding for a 70 per cent controlling stake in Sidor, the Venezuelan steel company. The group included Kobe Steel, Nissho Owai and Tomen Corporation. Page 20

UK acts alone after EU delay

Europe and US clash over meat imports ban

By Michael Smith in Brussels, Nancy Dunne in Washington and George Parker in London

The European Commission yesterday reacted angrily to last week's US government's decision to ban imports of European cattle and sheep meat, and questioned the motives for the prohibition.

But after criticism from the US and some EU member states, the Commission postponed for three months the implementation of its own ban on so-called specified risk materials, including products made with brains and spinal cords of cattle, sheep and goats.

The Commission said the US ban on meat from the EU and other European countries was "disproportionate" to any health risks posed by BSE, or "mad cow" disease, which has been linked to a new, fatal illness affecting humans.

"We do not know whether the US ban is related to a perceived risk or an ulterior motive," said a spokesman, who then referred to Washington's hopes to see progress on the dispute over the specified risk materials.

A senior US agriculture department official said the US restrictions on beef and lamb were imposed on food safety grounds, and "absolutely not" in retaliation for the proposed EU ban on SRMs.

"This was not motivated by trade policy, but based on recommendations by our advisory committees," said Paul Drazek, assistant to Dan Glickman, the agriculture secretary.

"There have been recent developments in the EU that raise concerns about the surveillance programmes of BSE and the ability to guarantee that affected animals do not make their way into the food chain."

Mr Drazek said there had been two instances – in Luxembourg and Brussels – of animals slaughtered, sold, and then found to have BSE when their brains were analysed.

He said the USDA had not been given information its scientists thought necessary about EU efforts to control BSE.

"We think if we get that kind of information we could conceivably lift the ban, on a country by country or region by region basis."

He said it was "a relief" that the EU has decided to postpone its proposed ban on SRMs because it included some products "that don't deserve to be included", such as medicines.

Mr Drazek said the US was willing to start a dialogue with EU scientists at the earliest opportunity. "A lot of decisions have been made without consultation, and that goes for both sides."

The EU agreed the animal parts ban last July but, in the face of strong opposition from the US and from member states including Germany, has been struggling to implement it ever since.

Member states yesterday agreed to postpone implementation from January 1 to April 1, with only the UK voting against the delay. The Commission is determined to see the ban adopted but there are growing doubts about its ability to do so.

The UK government announced it was going ahead unilaterally with the ban on specified risk material.

Jack Cunningham, agriculture minister, said he would introduce controls equivalent to those covered by the delayed EU ban. He said the specified material would not be allowed into the food chain, although he had no powers to restrict imports of meat containing the banned products.

He accused other EU nations of prevaricating and delaying on the implementation of the ban. "I cannot believe it is good for the reputation of the Commission."

Turkey turns to the Russian bear

Turkish president Suleyman Demirel (centre) and his wife Nazmiye greet Victor Chernomyrdin, the first Russian prime minister to visit Ankara. After rejecting a European Union conference invitation, Turkey yesterday showed it planned to pursue its own trade relations by signing a gas deal with Russia Page 14

Brussels set to issue legal warning on work time curbs

Commission tries to force action on directives

By Robert Taylor in London and Michael Smith in Brussels

The European Commission is preparing to issue a formal warning against six member states this week for their failure to implement European Union legislation restricting working time for most employees.

If the UK, France, Greece, Italy, Luxembourg and Portugal do not give a satisfactory response within two months, they face the threat of legal proceedings in the European Court of Justice.

The working time directive was passed in November 1993 and was supposed to have been made law in all EU countries by November 1996. Under the measure most employees are not required to work more than 48 hours a week. They are also entitled to four weeks of annual paid leave, and can restrict the night work and shift work they carry out.

Padraig Flynn, EU social affairs commissioner, also plans to issue a formal warning against the UK, France, Greece, Italy, Austria, and Luxembourg for delays in making law a directive covering employment protection for young workers agreed by the EU five years ago.

The UK government is still expected to issue its proposals on working time next month, but differences over technical details between the Department of Trade and Industry and the prime minister's office have held up an announcement, which is now expected next month. The Commission remains dissatisfied with the UK government for what it sees as the unreasonable and continuing delay.

In another development, EU social affairs ministers yesterday agreed in principle to widen limits on working hours to include millions of transport and offshore workers, junior doctors and others, and the Commission plans to unveil specific proposals in March next year.

The ministers also approved Commission directives to extend rights on holidays, pensions and dismissal to include part-time as well as full-time workers. In addition they agreed on extending directives covering works councils and parental leave to the UK following after Britain's decision to end its opt-out from "social Europe", a set of rules covering various aspects of social policy.

The Commission's directive on working hours will be based on ideas put forward in a white paper in the summer. Brussels believes there are too many exemptions from the 1993 working time directive, designed to take account of irregular work patterns in certain industries.

Mr Flynn wants to end exclusions for whole categories of workers and allow limited exemptions. The 1993 law guarantees workers a maximum average week of 48 hours; minimum daily rest of 11 hours plus at least one rest day per week; and four weeks' holiday. At least 6m workers are excluded, including transport workers.

Brussels extends curb, Page 3

Losses force Saab out of civil aircraft production

By Tim Burt in Stockholm

Saab, the Swedish aerospace group, is ceasing production of civil aircraft with the loss of more than 300 jobs following increased competition and heavy losses in the turboprop market.

The company – a subsidiary of Investor, the main investment vehicle of the Wallenberg industrial empire – yesterday said it could no longer sustain annual losses of Skr1bn ($128m) incurred producing its Saab 340 and Saab 2000 regional airliners. Production will end in mid-1999, clearing the way for Saab to develop its military aerospace and aircraft component facilities.

Although most of the 1,800 workers in Saab's commercial division are expected to be transfered elsewhere in the company, officials warned that some 20 per cent of its workers would lose their jobs. Redundancy and closure costs will be covered by a SKr4bn restructuring provision, taken as an exceptional charge against this year's profits.

Saab blamed the decision on rising costs and over-capacity in the regional aircraft market, where turboprops have faced intense competition from short-haul jets.

"We made a substantial effort over a number of years to add value to this business. It has not

Continued on Page 14

Markets

STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	7934.40	(+56.19)
NASDAQ Composite	1526.91	(-10.57)
Europe and Far East		
CAC40	2939.27	(+8.07)
DAX	4060.04	(-22.56)
FTSE 100	5121.8	(+76.6)
Nikkei	15,909.39	(+5.08)

US LUNCHTIME RATES

Federal Funds	5¾%
3-mth Treas Bills: Yld	5.293%
Long Bond	102
Yield	5.934%

OTHER RATES

UK: 3-mo Interbank	7⅞%	(7⅞%)
UK: 10 yr Gilt	107.2244	(107.244)
France: 10 yr OAT	101.62	(101.61)
Germany: 10 yr Bond	105.29	(same)
Japan: 10 yr JGB	109.54	(109.57)

NORTH SEA OIL (Argus)

Brent Dated	$16.86	(17.135)

GOLD

New York: Comex (Dec)	$284.5	(282.8)
London	$285.45	(282.55)

EXCHANGE RATES

Dollar – New York: lunchtime	
£	1.6315
DM	1.77375
FFr	5.9422
SFr	1.43175
Y	131.00

London		
£	1.6330	(1.6522)
DM	1.7702	(1.7732)
FFr	5.9281	(5.939)
SFr	1.4295	(1.4341)
Y	130.79	(130.31)
Tokyo close		Y 131.425

Sterling		
DM	2.8907	(2.9296)

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Russian economy 'has weathered storm'

By Chrystia Freeland in Moscow

The Russian economy has weathered the recent global financial crisis and is set to begin growing next year, Anatoly Chubais, first deputy prime minister, predicted yesterday.

However, Mikhail Zadornov, the recently appointed finance minister, admitted the recent turmoil on world markets would dramatically increase the cost of debt-servicing.

Mr Chubais' upbeat assessment coincided with official assurances that President Boris Yeltsin was making a strong recovery from the cold which has kept him out of the Kremlin for five days, prompting speculation he could be suffering from more serious health problems.

Mr Chubais insisted Mr Yeltsin was firmly in charge. "He is very much present," he said. "Not a single major issue can be resolved without a preliminary discussion with the president."

On the economy, Mr Chubais said 2 per cent growth in GDP next year was a realistic target. "I think it is feasible, given we seem to be emerging from the financial crisis."

The foreign exchange, government treasury bill and stock markets appeared to be recovering after several weeks of uncertainty.

Because of their rebound, Mr Chubais declared, Russia would not need to take the $2bn loan from four western banks which he had begun to negotiate earliar this month.

Mr Chubais also forecast Russia might ultimately reap more good than harm from the international financial turbulence. "Russia could emerge from the stock exchange and financial crises in the world with some gains, thanks to the redistribution of world financial resources."

But Russia's long-suffering citizens, who have endured nearly a decade of painful market reforms with no clear reward, are unlikely to be easily convinced. Kremlin promises of an economic upswing have been made and broken with painful consistency over the past three years.

Mr Zadornov, admitted that higher interest rates would push up the government's cost of borrowing, estimating that debt servicing costs in January and February would be equal to the sum the state had budgeted for all of next year.

He said the government was trying to negotiate changes in the draft 1998 budget and shift from expensive domestic borrowing to cheaper foreign borrowing.

French fury at judge's war crimes criticism

By David Buchan, Diplomatic Editor

France yesterday told Louise Barbour, chief prosecutor at the International Criminal Tribunal for former Yugoslavia, that her allegations that French troops had failed to arrest war criminals in their sector of Bosnia were "scandalous".

Javier Solana, secretary-general of Nato, which co-ordinates international peacekeeping in Bosnia, also weighed in on France's side yesterday with a statement praising French troops for doing an "outstanding job".

In French press and television interviews over the weekend, Mrs Barbour, a French-Canadian judge, vented her frustration at what she said was a long-standing policy of non-co-operation by the French military with her tribunal in the Hague and at a recent jibe by the French defence minister at its "show trials".

She complained that the largest number of the most important alleged war criminals were at large in the French sector of Bosnia which encompasses Pale, the capital of the hardline Serbs. "There are opportunities for significant action in the French sector", Mrs Barbour told Le Monde," but we have had to face total inertia".

At a meeting in Paris yesterday, Hubert Védrine, the French foreign minister, called her statements "scandalous" and counter-productive because successful action against war criminals required minimum publicity and maximum discretion.

Mr Védrine and officials from the foreign, justice and defence ministries told Mrs Barbour France would continue to refuse to allow its soldiers to testify at the Hague, though they were ready to improve the system of written depositions to the court.

Mr Védrine complained that the Anglo-Saxon procedure of cross-examination used at the Hague put "witnesses on almost the same level as defendants". But Mrs Barbour noted that British soldiers had testified at the Hague "without being traumatised or sullied", as had Belgian officers at the Rwanda war crimes tribunal being held in Tanzania.

Despite Mr Solana's claim of a unified Nato policy, Mrs Barbour noted that no arrests had been made in the US-controlled sector either, while British troops had mounted one action last July, killing one suspect and capturing a second. Britain has also given the Hague tribunal £300,000 ($495,000) to build a second court room, and started a "witness protection" programme. The aim is to give up to four witnesses a year from Bosnia a new life under a new name in the UK.

Editorial Comment, Page 13

Guterres passes poll test with flying colours

Portugal's minority Socialist government has won a vote of confidence in its first electoral test since gaining office two years ago. The results of local elections, held on Sunday, has strengthened political stability as the country enters the final stages of its bid to participate in the single European currency.

Antònio Gutarres, the prime minister, said the election, which gave the Socialists just over 38 per cent of the vote, was a warning to opposition parties not to undermine tha government at a crucial moment.

"Voters have sent a clear message that they want the government to serve out its full term," said Mr Guterres, whose government is four seats short of a majority in parliament. His words indicated the Socialists would not call an early general election in a bid to win an overall majority.

Guterres celebrates the Socialists' election victory Reuters

The centre-right Social Democrats (PSD), tha main opposition party, who share the government's enthusiasm for the euro, also emerged strengthened from Sunday's ballot. It won almost 33 per cent of the vote to gain control of 127 of the country's 305 municipal councils, up from 116 in the previous electioo and only two less than the Socialists.

The big losers were the hardline Communists (PCP) and the right-wing Popular party, smaller parties at opposite ends of the political spectrum, united only in their opposition to Portugal's participation in economic and mooetary union.

"This was a vote for the mainstream and the centre ground that marginalised the more radical parties," said a Lisbon economist. "Portugal does not want its confidence over the single currency shaken by political instability."

For the first time, the PCP, the only West European Communists that still adhere to a Soviet-style ideology, lost control of a majority of local councils in the Lisbon industrial belt.

But the PCP could take some succour from the re-election of a Socialist-Communist coalition in Lisbon, led by João Soares, son of Mário Soares, Portugal's former president and prime minister.

Coalitions with the PCP are acceptable to the Socialists in local elections, but are excluded at a wider level because most voters would reject Communist participation in government.

To overcome this handicap, Mr Guterres is anxious to prove that a minority Socialist government can survive a four-year term without having to rely on Communist support. In crucial parliamentary votes, such as the 1998 budget, the Socialists have usually negotiated backing from the PSD, a party that supports similar policies despite its status as the opposition.

Mr Guterres had appeared reluctant to inflict a heavy defeat on the PSD. This could have thrown the party into a leadership struggle, making it difficult for the Socialists to negotiate the support they need from the Social Democrats to approve important reforms in parliament.

The PSD's adequate showing in the municipal elections may also belp dampen its opposition to the governmant's plans to creata elected regional administrations. Mr Guterres intends to hold a referendum on the issue next year.

However, Mr Guterres has staked his credibility on the euro project, and Portugal will learn whether it is to qualify for membership of the single currency before the referendum is likely to take place.

Peter Wise

Threat to Serb reformer

By Guy Dinmore in Belgrade

Slobodan Milosevic, the federal Yugoslav president, has run into opposition after trying to dismiss the government's leading reformist, the deputy prime minister Danko Djunic.

Mr Djunic was appointed early this year to head the regime's faltering reform efforts. He won the respect of international bankers while heading the Yugoslav team in debt rescheduling talks with the London Club of commercial creditors, but ran into trouble at home with hardliners close to Mr Milosevic.

Jerome Booth, head of research in London at ANZ International, said Mr Djunic's dismissal would send a disastrous signal to western investors who are beginning to show signs of interest in Serbia. A privatisation law came into force on October 31.

Sources in the ruling Socialist party said the Yugoslav president began moves to dismiss Mr Djunic after he stepped out of line and said the federal government should recognise the results of the presidential election last October in the republic of Montenegro, the other component – with Serbia – of rump Yugoslavia.

Milo Djukanovic, Montenegro's reformist prime minister and a critic of Mr Milosevic, narrowly won, but the incumbent president, Momir Bulatovic, has refused to concede defeat.

Mr Milosevic has thrown his support behind the Montenegrin president, but was warned by Mr Djukanovic's faction they would block moves to reshuffle the federal government if Mr Djunic was removed.

Analysts said the row over Mr Djunic had highlighted the power struggle between Mr Milosevic and Mr Djukanovic. Mr Milosevic switched to the federal presidency last July because the constitution barred him from running for a third term as Serbian president.

His new position has, in theory, largely figurehead powers and he needs the support of Montenegro's deputies in the federal parliament.

Battle to control euro payments systems

Preparing for Emu

Next to the grand political design behind the planned introduction of the euro in 1999, a host of head-scratching practicalities wait to be resolved. Not the least of these is the way large sums of money are moved around between banks and their customers.

Most countries have their own electronic systems for settling cash, cheque and other transactions and this will not change with European monetary union – at least, not initially. But the systems will have to change profoundly to deal with the currency and pressures are likely to build up for fewer, more extensive payment systems.

The euro will start with far more payments systems than are really needed, says Eric Sepkes, a deputy chairman of the Euro Banking Association, which plans to be ready with a pan-European clearing system for euro transactions from the start of Emu.

National systems also intend to make payments in euros from the first day of the single currency. These include Chaps, the high-value payments system in the UK, although the country will not initially be an Emu member.

In time, however, Mr Sepkes reckons competition – with big banks going where the deals are cheapest – will whittle down the number of rivals.

The Paris-based EBA, whose members include some 50 clearing banks from the European Union, the US, Japan and Switzerland, aims to grab around a third of the euro-based payments market, says Olivier Mas, its chairman. Its system, to be operated by Swift, the global payment message network, will be capable of handling 200,000 payments a day.

Although it is hard to estimate the volume of cross-border payments in euros after 1999, Mr Mas reckons this could be up to 450,000. Apart from the EBA, such large commercial, banking and official payments will also be carried by Target (which will link Emu central banks under the European Central Bank's supervision), domestic systems and two-way links between correspondent banks.

In Frankfurt, where the ECB will be based, is one of the EBA's main future competitors, operated by Landeszentralbank in Hessen, the regional central bank that is part of the Bundesbank system. Called EAF, it handles around DM750bn ($423bn) worth of transactions a day and has grown by 30 per cent a year since its introduction seven years ago.

From next month, EAF will be opened up for remote membership across Europe, not just in the euro zone. "When the DM goes and the euro arrives, Frankfurt will no longer be the natural place [for routing payments to and from Germany] since settlement can be made in Paris, Frankfurt or elsewhere," says Hans Georg Fabritius, the bank's deputy president.

He believes EAF should carve out a sizeable share of the market. It is lengthening its hours of operation so as to overlap slightly with working times in the US and Japan.

For the banks handling big payments, however, it is a matter of indifference which system is used. They simply want to send and receive money with the minimum of fuss, delay and cost.

Volker Burghagen, heading euro preparations at Germany's Dresdner Bank, admits banks have some homework to do on this score. "Our customers will tell us, when the single currency exists, that they do not see why a Frankfurt-Hamburg payment should cost less than Frankfurt-Paris in the sama currency."

In the medium term, therefore, banks will have to co-operate to ensure payments to France will be as cheap as those within Germany.

The next step will to develop a Europe-wide system for small retail payments, such as cheques and standing orders, which fall below the threshold of large-volume networks. When the euro comes, says Gilbert Lichter, the EBA's secretary general, "we will not have an infrastructure for small payments that matches the European-wide logic of the single currency".

The EBA could help bring national retail systems together nnder one umbrella. But it will take time to solve all the practical challenges posed by tha single currency.

Andrew Fisher looks at new problems of competition facing bankers when Emu arrives

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US executives fear Emu instability

By Peter Marsh in Cleveland

Big US manufacturers with large sales and production bases in Europe see economic and monetary union as creating significant risks to business stability – even allowing for the project's potential to simplify commercial operations across the continent.

In an informal Financial Times poll of senior executives in 10 of the US's biggest industrial compaoies, the business leaders were evenly split on whether a single currency and uniform monetary policy would boost overall competitiveness in Europe.

Half expressed fears thet a currency union might either prove unworkable, for instance because of lack of common economic conditions or political squabbling, or do little to improve what they see as a generally negative business environment linked to expensive social legislation and inflexible working practices.

In spite of these fears, half the executives said that the practical effect of any prolonged decision by the UK to stay out of the project could make tham less likely to invest there, with three saying the UK's stance would not make a difference and two failing to express an opinion.

The 10 companies have combined annual sales of $55bn, $15bn of which comes from Europe, where they bave more than 50,000 employees.

Stephen Hardis, cbairman of Eaton, the controls and automotive parts company, said tbat in tbe absence of a European-wide political union he found it "hard to believe" that individual governments were prepared to cede control on monetary policy to the unelected staff of a single European central bank.

The restrictive monetary policies that would result would force up unemployment in some regions to levels that voters in individual countries would find unacceptable.

Alfred Rankin, chairman of Nacco, one of the world's three biggest lift truck makers, said: "There will be a real effort in the countries that join Emu to impose social legislation in the name of barmonisation that will make the region less competitive. Unless countries [such as Britain] can protect themselves from this kind of legislation they would be better to stay on the outside."

James Perrella, chairman of the Ingersoll-Rand engineering company, said: "Europe has a problem [on competitivaness] and Emu is not going to make it better.

Bill Hudson chairman of AMP, the world's biggest maker of electrical connectors, said: "The feasibility of Emn depends on the resolve of Europe's political leaders [to deal with matters such as social costs and fiscal policy]...and they don't have a great record on this."

More optimistic about Emu was Jim Henderson, chairman of Cummins, the big diesel engine maker, who was "impressed" by the efforts of European governments to bring about economic convergence in the past two years and confident the project would start on time in 1999.

Eastern European countries at present outside the European Union could become part of a broader zone of monetary co-ordination after introduction of the euro in 1999, Theo Waigel, the German finance minister, said yesterday. Mr Waigel said the volume of trade and investment flows that would be denominated in euros would mean a significant proportion of eastern European central bank reserves would be held in the currency, Gerard Baker reports from Columbia, South Carolina. "A broader euro-zone extending beyond the immediate euro-zone may develop over time," Mr Waigel told US business executives and economists

NEWS DIGEST

Italy's economy praised by IMF

The International Monetary Fund yesterday released an upbeat assessment of the Italian economy, saying that "exceptional results" had been achieved in price stability and fiscal consolidation over the past 12 months.

Concluding a two-week mission to Italy as part of its annual analysis of the world economy, the IMF said Italy was now locked into the "long-sought virtuous circle" that would provide lower interest rates for both the budget and the economy as a whole.

However, the IMF warned against complacency. It projected a rate of growth "not significantly above 2 per cent" for 1998, and identified "downside risks" because of the unwinding of special incentives for vehicle purchases and a dwindling stockbuilding contribution to growth.

The IMF also expressed concern about the Italian government's budgetary controls, notably as regards the build-up of unspent budgetary carry-overs (the so-called *residui passivi*) which, it said, could place soma pressure on cash controls.

The IMF said it would be seeking improved information on what proportion of these *residui passivi* amounted to commitments that constitute an unrescindable obligation to third parties (*residui propri*). *James Blitz, Rome*

■ FINANCIAL CRIME

Paris steps up fight

The French government is to allocate up to FFr30m ($5m) a year in additional funding to second specialist civil servants to help in the fight against financial crime.

The justice ministry confirmed yesterday that up to 200 magistrates, legal assistants and advisers for the Paris region will be brought together in a single building with new resources to help support investigations into corruption and other financial crimes.

Proposals being drawn up by the Paris court system should be prepared by the end of January, with the aim of creating the centralised unit by the end of 1998.

The government – in line with business organisations and other groups – has given priority to new funding for France's legal system as part of a broader series of reforms. Judges responsible for investigating financial crime, including those working on Crédit Lyonnais and Elf, have criticised the lack of resources in recent months. *Andrew Jack, Paris*

■ HUNGARIAN ECONOMY

OECD sees improved growth

Hungary's gross domestic product growth will be 2.5 per cent this year and 3.5 per cent in 1998, according to an Organisation of Economic Co-operation and Development forecast. This would be a great improvement on 1996, when a harsh austerity programme cut growth to only 1.3 per cent.

However, if confirmed, it would disappoint the government, which has been predicting growth of 4 per cent this year and up to 5 per cent for 1998.

The OECD has been urging the government to step up the fight against inflation, expected to be between 17 and 18 per cent this year. The report said the planned reduction of 5 to 6 per cent in the inflation rate next year could be endangered by carry-over effects from this year.

The OECD said the government was considering a more ambitious disinflationary strategy for next year, combining a more aggressive interest rate policy with a co-ordinated reduction in nominal wages and prices growth. But most analysts believe a much tougher incomes policy is unlikely in the short term with elections due next May. *Anatol Lieven, Budapest*

■ CZECH POLITICS

Hunt for caretaker PM fails

President Vaclav Havel signalled yesterday that his plans to appoint a caretaker premier had fallen through after a week-long search produced no plausible candidate.

The government of Vaclav Klaus collapsed two weeks ago after a campaign finance scandal. Last week, Mr Havel asked Josef Lux, chairman of the Christian Democrats and a former partner in Mr Klaus's coalition government, to find suitable candidates for the premiership so that he could designate the premier at the beginning of this week.

Mr Klaus easily won re-election to the leadership of his Civic Democrats at the party's emergency congress over the weekend. The Congress delegates asked him and his newly elected deputies to negotiate with Mr Havel and Mr Lux over the formation of a new government. However, Mr Klaus made it clear earlier that he would prefer to stay away from any caretaker cabinet.

"Results of the [weekend] talks, unfortunately, make it impossible to designate the new premier," Mr Havel said, without giving details. "I have asked Mr Lux to continue his mission," Mr Havel said, expressing hopes he could appoint the new prime minister today. Both Mr Klaus and the opposition said they would support a caretaker cabinet as long as they were guaranteed early elections in 1998. *AP, Prague*

■ MOSCOW ELECTIONS

Aristocrat joins city council

A descendant of Count Gregory Orlov, a lover of Catherine the Great, has won election to the Moscow city council, Itar-Tass news agency reported yesterday.

Stepan Orlov, an independent candidate, became the first aristocrat elected to a legislative body since the 1917 Russian Revolution, the agency quoted Galina Leonova, secretary of the Assembly of Nobles, as saying.

Mr Orlov, a member of the assembly, had the support of the pro-government Our Home is Russia party as well as the liberal Democratic Choice bloc, which won the most seats on the council, the agency said.

"For the first time in 70 years of humiliation and repression, a member of the Assembly of Russian Nobles has become a representative of state power," Mrs Leonova said. Independent candidates backed by Moscow's powerful mayor, Yuri Luzhkov, won a majority of the 35 seats in the election last Sunday.

The local assembly is generally seen as a body which rubber-stamps decisions taken by the mayor, who won re-election in June 1996 with nearly 90 per cent of the vote. *AFP, Moscow*

■ GERMAN DEFENCE

Greens may drop Nato policy

Leaders of the Green party, polishing their image ahead of German elections next September, have proposed scrapping their party's goal of an immediate withdrawal from Nato.

The party, which is already the third largest in the federal parliament, is rooted in pacifism, feminism and environmentalism, but it has sought recently to present a more mainstream image. The latest platform draft, released yesterday, still contains party demands to boost petrol taxes substantially.

The Greens would also retain their long-term goal of demilitarisation, in the hope of eventually abolishing the German military and the Nato military alliance. But the party would no longer demand Germany's unilateral withdrawal from the alliance.

The new draft is to be discussed at a party convention next month in the town of Erfurt, party representatives said. *AP, Bonn*

Rühe swims against tide of scandal

Bundeswehr revelations have taught defence minister a tough lesson. Peter Norman reports

Volker Rühe, the Bonn defence minister, must now have an inkling of what life was like for army conscripts from the German Bundeswehr as they laboured night and day in the summer to prevent the Rivar Oder bursting its banks.

Since late last week, the minister has been also on damage limitation dnty around the clock, but to contain a spate of scandals that suggest the Bundeswehr could be open to far-right neo-Nazi influence.

Whereas the Oder engagement had a happy end, with the river waters receding and the Bundeswehr's reputation rising to new heights, the ontcome of Mr Rühe's efforts is far from clear. But so far, the affair has hurt his standing as ona of the ruling coalition's highflyers.

Damaging disclosures about far-right incidents in the Bundeswehr have come thick and fast in recent months.

A gronp of soldiers attacked foreigners in the town of Detmold in March. In June, outrage followed the discovery of a video showing troops simulating the rape, torture and murder of civilians which was broadcast by the Sat 1 television channel. In August, two soldiers set fire to the home of Italian construction workers in Dresden.

A further video showing anti-semitic behaviour by soldiers in eastern Germany surfacad in October. In November, prosecutors in the eastern German town of Erfurt launched an investigation against eeveral soldiers for giving the Hitler salute and singing Nazi songs.

The newspaper Die Woche reported last week that 126 cases of suspected extreme rightwing activity in the Bundeswehr involving 161 soldiers were reported in the period to November this year, compared with 44 incidents involving 56 suspects last year.

Most worrying was last week's news that Manfred Roeder, a neo-Nazi convicted and jailed for terrorist activities in the 1980s, had given a speech to young officers at the Bundeswehr's elite leadership academy in Hamburg in January 1995.

Mr Rühe visited the academy in Hamburg yesterday as part of his damage limitation campaign.

The incidents have raised worrying questions about Germany's conscript armed forces and their position in society. They have also put Mr Rühe under a cloud.

Until a few weeks ago, Mr Rühe seemed one of the most successful ministers in the centrist coalition government of Helmut Kohl, the chancellor. In office since 1992, he won plaudits for his ability to persuade a sceptical-to-hostile public to accept the deployment of Bundeswehr troops abroad, including Bosnia. The successful sandbagging of the banks of the Oder added to his and the army's prestige.

Now, at the very least, Mr Rühe stands accused of having minimised the significance of the individual incidents as they emerged. More serious is the charge made by Claire Marienfeld, the Bundestag appointee charged with special responsibility for the troops' welfare, that Bundeswehr soldiers often have insufficient knowledge of their nation's tronbled and bloody history this century, and that the Bundeswehr is failing to educate them.

Volker Rühe talks to troops near Munich at the weekend: recent incidents have raised worries about conscripts Reuter

Such knowledge is seen as vital for turning out soldiers as "citizens in uniform". This concept was first formulated 40 years ago to ensure that the Bundeswehr would be a pillar of the post-war democratic system and would not, like the Wehrmacht between the wars, be sedneed into the support of extremist causes.

In response to the scandals, the Bundestag defence committee will convene on January 14 as a special investigative body after defining its terms of reference in the weeks ahead. Mr Rühe has also agreed with Edzard Schmidt-Jortzig, the justice minister, to change the law so that recruits can be investigated to determine whether they have been convicted or are under investigation for extreme right offences.

So far, Mr Rühe can take heart that no-one from the opposition has called for his resignation. The Bundeswehr, meanwhile, has been given public support by a "grand coalition" of former defence ministers from Mr Kohl's Christian Democratic Union and the opposition Social Democratic party, including Helmut Schmidt, the former SPD chancellor.

But this closing of the ranks has not restored Mr Rühe's position. The minister, who was widely seen as second in line in the succession to Mr Kohl, has discovered the hard way why the defence ministry has always been regarded as one of the riskiest cabinet posts in Bonn.

Brussels plans to extend curb on hours

By Michael Smith in Brussels

The European Commission plans to lounch proposals in March next year for widening limits on working hours to include millions of transport and offshore workers, junior doctors and others.

It plans to formulate proposals after winning support in principle yesterday from social affairs ministers meeting in Brussels.

Ministers representing all 15 member states also approved Commission directives to extend rights covering holidays, pensions and dismissal from full-time to part-time workers.

In addition, they agreed on extending directives covering works councils and parental leave to the UK after Britain's decision to end its opt-out from "social Europe", a set of rules covering various aspects of social policy.

The Commission's directive on working hours will be based on ideas put forward in o white paper in the summer.

Brussels believes exemptions from the 1993 working time directive, designed to take account of irregular work patterns in certain industries, are too numerous.

Padraig Flynn, social affairs commissioner, wants to end exclusions for whole categories of workers and to allow only limited exemptions. The 1993 law guarantees workers a maximum average week of 48 hours; minimum daily rest of 11 hours plus at least one rest day per week: and four weeks' paid annual holiday.

At least 6m workers are excluded, including air, sea and road transport workers, fishermen, offshore oil employees and trainee doctors.

The white paper called for only mobile workers, such as offshore oil workers or long-distance transport workers, to be exempt from the 48-hour week maximum. Even mobile workers would be covered by other directive provisions, including those fixing maximum annual working hours, and rest and holiday entitlements.

The recommendations were less specific for trainee doctors, implying they would be subject to the 48-hour maximum, but they could be required to be on call for additional periods.

Jean-Claude Juncker, Luxembourg prime minister, who chaired yesterday's ministerial meeting, said his country was particularly keen to see hours rules extended to transport workers.

Ian McCartney, UK trade minister, said Britain would ensure the working hours proposals were treated positively under its EU presidency, which begins next month.

Spanish interest rates fall further

By David White in Madrid

The steady fall in Spanish interest rates continued yesterday when the Bank of Spain cut its benchmark rate by a quarter of a percentage point to a historic low of 4.75 per cent.

The rednction had been widely expected although many analysts had thought it unlikely the central bank would make its move until just before Christmas.

The bank took its action despite an increase in the annual consumer price inflation rate, which edged up to 2 per cent in November, compared with 1.9 per cent the month before.

The inflation figures, which were announced last week, still left considerable room for the government to meet its 2.2 per cent target for the year. This would be comfortably below the level needed to qnalify for the 1999 launch of the European single currency.

Yesterday's rate cut, made at the central bank's regular aecurities repurchase anction, was tha 13th successive reduction over the last two years. The rate has come down from 6.25 per cent at the beginning of the year, and 8.75 per cent at last year's general election, which gave the centre-right Popular party its first national victory.

The cut was in line with recent rate falls in Spanish deht markets. Most big Spanish hanks followed immediately with quarter percentage-point reductions in their prime lending rates.

Rodrigo Rato, the finance minister, underlined the fact that Spain had not suffered any fall-out from the Asian financial crisis. "For the first time, Spain's currency and interest rates have performed like those of a mainstream European country," Mr Rato told the senate.

Further cnts are expected next year to around 4 per cent, as Spanish interest rates converge with those of France and Germany in preparation for a unified official rate within the future single currency zone.

"The process is not finished yet," said José María Cuevas, head of the CEOE employers' federation.

The reduction is seen as reinforcing Spain's prospects for further economic recovery, with growth expected to accelerate to 3.5 per cent next year. The main trade unions also welcomed the cut, saying employers no longer had any excuse for not investing and creating johs to rednce unemployment, which is still running at over 20 per cent.

German groups to halt digital TV promotion

By Emma Tucker in Brussels

Kirch, the German television group and Bertelsmann, the German media group, have agreed to stop promoting their digital pay television services and to suspend the marketing of a decoder box, after complaints from the European Commission that their behaviour violated competition rules.

Brussels said the two groups had agreed to suspend activities pending the ontcome of a Commission investigation into the pooling of their digital television interests in a venture known as Premiere. The investigation is expected to last until May.

The Commission has agreed to allow the 100,000 consumers who have already bought the boxes and taken out digital-TV subscriptions "in good faith" to continue receiving Premiere's services. The exception will also apply to a further 30,000 subscriptions already distributed but not yet activated.

"You have to put yourself in the position of consumers," said a Commission official. "We did not want to punish them." But shops will be ordered to refuse new requests for Premiere's services while the Commission completes its inquiry.

Kirch and CLT-Ufa, the Luxembourg-based broadcasting group in which Bertelsmann has a 40 per cent stake, fell foul of the Commission by failing to notify Brussels competition authorities of their digital pay-TV plans while energetically marketing the decoder boxes.

EU officials demanded formal notification of the deal under European merger rules, and ordered the companies to correct the impression that their decoder box was already the definite digital standard for the German market.

Karel Van Miert, who met the gronp's owner, Leo Kirch, yesterday, is concerned that the enlarged Premiere operation could create a monopoly in German digital television.

However, Kirch has complained that Brussels' demands have left Premiere as the only pay-TV broadcaster in Europe forbidden from using a "d-box" – a fact that waa hindering Germany's competitiveness in the digital television sector.

The Commission has until Jannary 15 to decide whether to clear the merger, or extend its investigation for a further four months.

Air France in staff share offer

By David Owen in Paris

Air France plans to offer about 20 per cent of its capital to staff next summer, with a further, still unspecified, proportion to be sold on the stock market.

But it remains uncertain whether the company will exchange shareholdings with other international carriers.

Jean-Cyril Spinetta, chairman, said: "One must not lay down as a principle that capitalistic links are necessary for a commercial alliance to work; recent history seems even to show that it is rather the reverse that is true."

Mr Spinetta was appointed in September following the resignation of Christian Blanc, his predecessor. Mr Blanc departed when it became clear the Socialist-led government would not consent to a majority of the company's capital passing into private hands in the foreseeable future.

But ministers subsequently gave clearance for a minority staka in the group to be sold.

The company indicated yesterday that about half the sharee earmarked for employees would be offered to pilots in return for a 15 per cent pay cut.

The SNPL pilots' union said it was "extremely disappointed" the proposals had reached the public domain before pilots themselves had been informed. But it would not necessarily oppose them.

In a letter to employees dated yesterday, Mr Spinetta confirmed detaile of the share offer proposals, and dieclosed plans to invest FFr40bn ($6.7bn) in aircraft and other items over the next five years.

He suggested that figures to be published in the near future would confirm the group's return to profitability.

In May, the company announced it had returned to the black for the first time since 1989.

NEWS: ASIA-PACIFIC

Asean pledges to speed up tariff cuts

By James Kynge and Sheila McNulty in Kuala Lumpur

The Association of South-East Asian Nations (Asean), a powerful group of nine developing countries, agreed yesterday to accelerate the reduction of regional tariffs to combat their economic crisis.

Mahathir Mohamad, Malaysian prime minister, said the group had decided at a summit meeting to import more from member countries because sharp depreciation of several regional currencies against the US dollar had made regional goods cheaper.

"We do not have the foreign exchange to buy from outside the region," Dr Mahathir said. He insisted the agreement did not mean that Asean was turning into an exclusive trade bloc.

Asean, which comprises Malaysia, Thailand, Indonesia, Singapore, the Philippines, Vietnam, Burma, Laos and Brunei, has set a target of bringing tariffs down to less than 5 per cent by 2003 on almost all items traded within the group. Imports from outside Asean are subject to different, generally higher duties.

Officials said it was possible the 2003 deadline could be brought forward but they added this was an issue for economic ministers to decide at a later date. Dr Mahathir indicated that Asean's drive to buy more from within the region could be extended to include purchases from China, Japan and South Korea for certain items.

The leaders of China, Korea and Japan are also attending Asean's informal summit, which was called to celebrate the 30th anniversary of the south-east Asian group. It is the first time the leaders of Asia's most powerful nations have met without US participation.

Shen Guofang, China's spokesman, quoted Jiang Zemin, the Chinese president, as calling for the establishment of a regional economic structure which was "mutually complementary, non-exclusive and non-discriminatory".

Japan appeared more wary of Asean's new initiative. "Although east Asian economies have difficulties, they should not be tempted to be trapped by protectionism," said a spokesman for Ryutaro Hashimoto, Japanese prime minister.

The summit is partly a preparation for the Asia Europe Meeting (ASEM) in London next April, which will bring together the leaders of Asean, China, Japan and South Korea with those from EU member countries.

● Asean moved to defuse tension with the European Union yesterday by saying Burma would not be expected to attend the Asia Europe Meeting (ASEM). The UK has insisted that Burmese officials would not be given visas to attend the summit in London because of what it called a repressive regime in Rangoon.

Dr Mahathir said "new members" of Asean would not be attending ASEM, a remark seen as a concession.

Mahathir Mohamad (left) with Ryutaro Hashimoto Reuters

NEWS DIGEST

Thai reserves down by $2bn

Thailand's foreign reserves fell to $26.3bn at the end of November, a loss of $2bn in the last two weeks of the month, the country's central bank said yesterday.

The bank said the drop was due to settlement of s number of forward contracts that were taken out during the country's failed defence of the baht earlier this year. Outstanding forward contracts now amount to $18.3bn and the cost of settling them increases as the baht falls.

The level of reserves, bolstered by drawdowns from a $17.2bn International Monetary Fund rescue package, remain above the target of $23bn set by the IMF for the end of the year. Nevertheless, the Thai currency fell to another record low yesterday of Bt47.95 to the US dollar compared with Bt45.60 on Friday.

Traders said the currency was under pressure from Thai coporations seeking dollars to pay back $6bn in foreign debt which comes due this month.

Speculators also seized on another release by the central bank showing it had lent another Bt59.9bn ($1.24bn) to troubled financial institutions in the last two weeks of December to drive the baht down even further, they said. *Ted Bardacke, Bangkok*

■ PHILIPPINE POLITICS

New presidential candidate

The ruling coalition in the Philippines was yesterday dealt a sharp blow when Renato de Villa, the former defence secretary, announced he was running for the presidency in elections next May, despite failing to secure the coveted presidential endorsement last week.

"I declare a rebellion against traditional politics of corrupt patronage, and the idea that people and their principles can be bought," Mr de Villa said in a reference to the surprise endorsement by President Fidel Ramos of Jose de Venecia, speaker of the lower house.

That decision was made on fears that Mr de Venecia would split the party and run independently if he were not selected by the president. Few considered that Mr de Villa, hitherto a loyal ally of Mr Ramos, would break party ranks. *Justin Marozzi, Manila*

■ HK ELECTIONS

Lau gives up UK citizenship

Emily Lau, one of Hong Kong's leading pro-democracy politicians, said yesterday she will surrender her British citizenship to compete in the territory's first post-colonial legislative elections next year.

Ms Lau's decision comes as the territory's pro-democracy forces prepare for elections in which new rules appear to tilt the odds against them. The 20 seats in the 60-member legislature that are to be directly elected through geographical constituencies will be contested under proportional representation, rather than first-past-the-post. At the same time, there will be a sharp reduction in the franchise for the 30 seats to be chosen by functional constituencies – professional and social electoral chambers. In renouncing her British citizenship, Ms Lau is going against a Hong Kong trend of seeking to secure foreign passports. *John Ridding, Hong Kong*

South Korean growth forecasts slashed

By Peter Montagnon, Asia Editor, in London

Private sector economists have slashed their forecasts for South Korean growth next year to an average of 1.8 per cent, in the wake of the crisis that has forced it to turn to the International Monetary Fund for help.

Their forecasts, collated by Consensus Economics from projections of nine leading bodies, contrasts with that of the Organisation for Economic Co-operation and Development, which said yesterday that South Korea would see growth of 5.5 per cent next year against 6.2 per cent this year.

The OECD noted the forecast in its Economic Outlook was prepared last month, when the Consensus panel was also predicting growth of 5.4 per cent for 1998.

"There is a clear risk that the financial problems which have become more pronounced since the projections were finalised will lead to weaker domestic demand, higher inflation and a stronger current external balance than projected," it said.

The Consensus panel's abrupt reduction of its growth forecast reflects the searing effect the currency crisis has had on South Korean prospects. It leaves private sector forecasters more pessimistic than the IMF, which, at the time of Korea's recent loan agreement, estimated the country's growth next year at 2.5 per cent.

Consensus survey expectations range from 3 per cent growth, the same as that now forecast by the South Korean government for next year, to a 2.2 per cent contraction of the economy. Only three months ago, the average 1998 Consensus growth forecast for South Korea was 6.4 per cent; this year the economy is expected to grow 5.8 per cent.

The forecasters have slashed $12bn off their predictions for imports next year. These are now expected to reach only $146.8bn as domestic demand weakens.

Consensus Economics said forecasters had also cut expectations for exports, supposed to be the engine of Korean recovery, by $5bn to $149.4bn since last month's survey. Part of this reflects the so-called J-curve effect, whereby the dollar value of exports is depressed immediately after devaluation.

The OECD said slow growth and high inventories had worsened cash flow problems for South Korean companies, whose profits have fallen to under 1 per cent of sales, insufficient to service their debts.

But it said Korea's strong fundamentals rate total should help economic restructuring.

What if Korea defaults? Page 12

Japan package likely to include tax cuts

By Paul Abrahams and Gillian Tett in Tokyo

The Japanese government will today announce the latest of several economic packages to stimulate the economy. The measures are expected to include about Y500bn ($4bn) in tax cuts as well as a Y10,000bn government-backed bond issue to support the troubled banking and insurance sectors.

In Tokyo, the yen fell through the Y131 mark against the dollar, its lowest level since May 1992 and a signal of market scepticism over the likely impact of the package. The yen's weakness was triggered by the worse than expected quarterly survey of business confidence by the Bank of Japan. The authoritative Tankan survey of more than 9,000 companies showed a slump in confidence in the manufacturing and services sectors.

Separately, the Organisation for Economic Co-operation and Development yesterday downgraded its 1998 forecasts for Japan's economic growth from 3.1 per cent to just 1.7 per cent. It said the economy would contract year on year by 0.7 per cent during the second half of 1997.

The new measures will include a reduction in the level of corporate, property, and the securities transaction taxes. Previous stimulus packages have failed to boost domestic demand, increasing the pressure on the government of Ryutaro Hashimoto, prime minister, and his ruling Liberal Democratic party.

Asian countries are concerned the Japanese economy's weakness could drive the yen down yet further, adding further pressure on their currencies. The US and Europe have already expressed concern about the yen's weakness and the size of Japan's trade surplus.

The Tankan report said business confidence had been hit by the economic slowdown, the recent financial failures and the Asian crisis. "The deterioration [in confidence] was broad-based. Without immediate fiscal measures, the economy will probably fall into recession," said Tomoko Fujii, economist at Salomon Brothers in Tokyo.

Among the many worrying aspects of the Tankan were signs of a credit squeeze despite Japan's extraordinarily low official interest rates. The percentage of big companies reporting higher borrowing rates less those noting lower rates increased from minus 18 in September to eight. The government stressed the economy's poor state in an effort to prepare the public for the use of state funds to prop up the financial system.

Jakarta brokers get tough on traders

By Sander Thoenes in Jakarta

Indonesia's brokers say they are getting tough on insider trading, front-running (a trader buying stock for himself before booking a larger volume of the same stock for a client) and other practices that were tolerated during the bull-run but which turned costly in the recent stock market crash.

One signal was a complaint filed to the police by Amsteel Securities, the Malaysian brokerage, against Redjo Husin, its capital market director in Jakarta. Mr Redjo was last week released conditionally after 28 days' detention.

Made Mangku Pastika, chief police investigator for economic crimes, said Mr Redjo was suspected of fraud and tampering with legal documents by trading on fictitious accounts, registered in the names of his wife and mother-in-law. Amsteel would not comment.

Earlier, police had also detained an employee of Lippo Securities, a large Indonesian brokerage. The employee was later released because police believed the matter was a civil case. Lippo says it is now suing its former employee.

"We have never been this tough before," said Hary Danardojo, head of trading at Lippo Securities.

"It was probably the first time in this industry when Lippo Securities went to the police. I just wanted to set a precedent. It's a matter of our integrity." Two more traders of prominent brokerages were said to have been detained recently, but the companies involved would not comment.

HSBC Securities said it had not pressed charges against one employee who had left the company following complaints she had broken the company's code of ethics.

Bapepam, the regulatory agency for the stock market, has suspended a number of brokerages for insider trading in the past year. This became an offence only with the adoption of a law on capital markets last year.

Brokers said several traders had been caught short-selling stock, a practice not allowed in Indonesia, using share certificates they had borrowed from other brokers. Short-selling is selling stock which the broker has yet to buy.

Others were said to have bought shares shortly before fulfilling large orders for these stocks by their clients, to cash in on the rising price, others to have used accounts of clients to trade in stock without the client's consent.

"In the past, people got away with it, or they were just dismissed," said David Chang, head of research at Trimegah Securities.

Mr Danardojo said Lippo made bad debt provision of up to Rp10bn ($1.9m), including $75,000 in damages allegedly caused by the employee in question.

Just as this street trader cannot afford to slow down, neither can the economy

Alarm bells ringing as Indonesia's woes grow

The warning calls of growing under-employment echo through the alleys and back streets of Indonesia's inner cities.

They are the cries and whistles, rattling of spoons and banging of pots of the self-employed men and women who peddle food, ice cream, plastic buckets and other odds and ends from dawn to late at night.

These men and women seem to offer far more than can possibly be in demand, but this informal sector of the economy has managed to absorb millions of Indonesians who cannot find steady jobs despite rapid economic growth. Their key to survival is the long hours they work and the speed at which they cruise through neighbourhoods to maximise turnover.

Just as these street traders cannot afford to slow down, neither can the economy. The government estimates it needs 5 per cent growth in gross domestic product to absorb the 2.4m people who enter the job market each year.

The consensus of 17 forecasters last month was that the on-going currency crisis would cut growth to 4.2 per cent in 1998, against earlier predictions of 7.6 per cent. Some economists say the continued fall in the rupiah makes this estimate optimistic and warn of stagnation.

The International Labour Organisation (ILO) warned last week the slowdown in south-east Asia could spark social unrest as millions lose jobs and others see inflation eat away their purchasing power. Nowhere are risks more obvious than in Indonesia, the region's largest country with 200m people, which has experienced strikes and riots in growing numbers in recent years.

This month 50 large Indonesian enterprises asked the government for permission, which is obligatory by law, to put off 10,000 workers. More than 8,000 workers lost their jobs when 15 troubled banks were shut down and construction companies have already told thousands of day labourers not to come back. Thousands of Indonesian migrant labourers are being sent home from Malaysia and Thailand, which face similar economic problems; more than 10,000 are being evicted from Saudi Arabia. Farmers, who still represent more than half the workforce, have seen their harvests crippled by drought.

Officials say unemployment in the capital rose from 4 per cent in 1996 to 6 per cent in October of this year; the last nationwide estimate dates back to 1995, at 7.24 per cent. Unemployment statistics understate the problem, however, as a person is considered employed if he works one hour a week; by most estimates, more than 30 per cent of the population was under-employed even before the currency crisis.

The government is aware of this challenge and has pledged to give priority to labour-intensive industries for subsidies in next year's budget. They have vowed to protect workers from arbitrary dismissal but realise that many debt-ridden enterprises could go under if they do not shed workers.

Indonesia's enterprises, many of which were hit by the 47 per cent depreciation of the rupiah which boosted the cost of imports and of servicing offshore loans, will be hard pressed to pay wages for those who held on to their jobs, let alone index wages to inflation. Prices rose 1.65 per cent in November – food prices rising even faster. Consumer prices were up 9.01 per cent in the 11 months to November.

"It's brewing in the regions," said one labour activist from Sumatra. "Prices are going up and wages are as miserable as ever." The minimum daily wage equals $1 in many regions. Workers have gone on strike to demand wage increases at some of Indonesia's largest factories, such as the Gudang Garam cigarette factory in east Java, which employs 40,000 people. They have walked out of textile and shoe factories that account for much of Indonesia's non-oil exports.

Labour activists say strikes and riots are most likely to escalate on the eve of orchestrated presidential elections in March, which should extend President Suharto's 30-year rule by another five years. "The real reaction of the workers will come in December and January," predicts Teten Masduki, a lawyer who defends workers in labour conflicts. "Even when there is no monetary crisis, prices rise in these months. It is the time of Ramadan (the Moslem month of fasting), and that is when companies usually pay a special bonus. Normally, many companies do not want to pay the bonus and that is when workers strike. Thirty per cent of all strikes occur during Ramadan. This year it will be much worse."

The street trade may not be able to absorb the unemployed this time. Unemployment is highest among the young and educated, who balk at menial jobs. And in recent weeks the number of vendors has dropped sharply, with traders blaming the start of the rainy season and rising inflation.

"It's more difficult than before to make money. Many of us have gone back to villages to resume farming, but I do not own any land so I do not have a choice," one elderly trader said.

Sander Thoenes

[illegible]

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1985=100.

	■ UNITED STATES					■ JAPAN					■ GERMANY				
	Exports	Visible trade balance	Current account balance	Ecu exch. rate	Effective exch. rate	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1986	231.0	−140.6	−155.8	0.9836	81.4	208.9	94.2	87.2	165.11	127.7	243.7	53.5	41.8	2.1279	108.6
1987	220.2	−131.6	−145.6	1.1541	71.9	194.7	83.7	75.5	166.58	135.8	254.4	56.6	40.6	2.0710	114.9
1988	272.5	−100.2	−108.4	1.1833	67.0	218.7	79.8	67.0	151.51	153.7	272.6	61.4	42.4	2.0739	114.1
1989	330.2	−99.3	−94.6	1.1017	70.0	245.5	70.6	53.4	151.87	147.0	310.1	65.1	51.5	2.0681	113.3
1990	309.0	−79.3	−72.1	1.2746	66.7	220.0	50.0	28.5	183.84	125.0	324.6	51.8	38.2	2.0637	118.1
1991	340.5	−53.5	−4.5	1.2391	65.7	249.4	77.7	57.4	166.44	143.7	327.4	11.1	−14.6	2.0460	117.1
1992	345.9	−65.2	−43.5	1.2957	64.4	256.8	98.2	86.7	164.05	150.7	330.9	15.8	−15.0	2.0187	120.6
1993	337.3	−98.7	−77.6	1.1705	66.3	300.3	118.8	112.4	130.31	181.0	325.2	30.8	−12.1	1.9357	125.3
1994	432.3	−127.0	−112.6	1.1957	66.1	325.0	121.7	110.5	120.99	194.9	360.3	37.5	−17.8	1.9188	125.6
1995	452.3	−122.6	−99.9	1.2926	61.2	331.1	101.3	83.3	121.43	204.8	404.5	46.6	−16.3	1.8609	132.1
1996	499.0	−135.9	−118.3	1.2526	64.4	319.6	66.6	52.6	136.24	177.7	416.2	52.2	−10.4	1.8844	128.6
4th qtr.1996	128.6	−34.8	−29.4	1.2557	65.0	80.4	17.0	13.1	141.72	171.2	105.9	13.9	−1.0	1.9217	127.0
1st qtr.1997	140.6	−36.8	−34.1	1.1713	68.3	83.3	14.7	13.1	141.62	164.3	107.7	13.8	−4.8	1.9415	124.8
2nd qtr.1997	152.8	−36.7	−33.2	1.1386	69.2	94.2	24.8	23.2	138.15	168.4	112.2	17.4	2.6	1.9611	123.3
3rd qtr.1997	159.5	−43.7	−38.1	1.0883	70.1	95.4	24.6	22.9	128.47	173.8	117.0	18.4	−3.0	1.9672	120.8
October 1996	42.7	−11.1	n.a.	1.2538	65.0	27.1	5.5	4.4	140.52	172.2	35.9	4.9	−1.0	1.9157	127.3
November	42.9	−10.7	n.a.	1.2706	64.4	27.1	5.7	4.7	142.64	171.3	36.4	4.9	0.0	1.9207	127.3
December	43.0	−13.0	n.a.	1.2428	65.5	26.2	4.8	4.1	141.99	170.2	34.7	4.1	0.1	1.9286	126.2
January 1997	43.2	−13.4	n.a.	1.2105	66.7	26.4	5.9	5.8	142.63	165.5	34.3	2.5	−5.5	1.9414	125.9
February	46.9	−13.5	n.a.	1.1587	68.9	27.5	4.1	4.0	142.52	162.3	36.0	5.0	−0.8	1.9412	124.5
March	50.8	−10.9	n.a.	1.1447	69.5	27.3	4.7	3.5	140.32	163.7	36.8	6.2	1.5	1.9416	124.5
April	50.7	−12.1	n.a.	1.1401	70.4	33.6	7.1	7.1	143.25	160.2	35.7	5.5	1.6	1.9509	123.9
May	50.6	−12.6	n.a.	1.1444	68.9	33.0	10.2	9.4	135.92	169.0	37.8	5.1	−1.4	1.9491	123.5
June	51.5	−11.9	n.a.	1.1312	68.4	31.2	7.8	7.6	129.31	176.5	38.5	6.5	2.4	1.9634	122.4
July	53.5	−14.2	n.a.	1.1011	69.2	32.4	7.7	7.4	126.84	177.0	38.8	8.2	−1.7	1.9722	120.6
August	54.6	−14.3	n.a.	1.0885	70.7	32.8	10.0	9.6	129.99	175.3	38.2	4.8	−2.7	1.9675	120.4
September	52.5	−15.3	n.a.	1.0974	70.5	30.2	7.0	6.0	132.58	169.2	40.0	7.5	1.4	1.9618	121.5

	■ FRANCE					■ ITALY					■ UNITED KINGDOM				
	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1986	127.1	0.0	3.0	6.7946	102.7	99.4	−2.5	−1.4	1461.6	101.4	108.3	−14.2	−1.3	0.6709	91.1
1987	128.3	−4.7	−3.7	6.9303	102.7	101.0	−7.7	−2.7	1494.9	101.1	112.3	−16.4	−6.8	0.7047	89.3
1988	141.9	−4.7	−3.4	7.0354	100.6	108.3	−8.9	−6.0	1536.8	97.7	120.9	−32.3	−24.8	0.6643	94.7
1989	162.9	−6.3	−3.6	7.0169	99.6	127.8	−11.3	−17.0	1508.2	98.6	137.0	−36.7	−33.3	0.6728	91.8
1990	170.1	−7.2	−7.2	6.9202	103.8	133.6	−9.3	−18.0	1523.2	100.1	142.3	−25.3	−26.2	0.7150	89.8
1991	175.4	−4.2	−4.8	6.9643	102.1	137.0	−10.5	−17.7	1531.3	98.7	147.7	−14.7	−11.4	0.7002	90.5
1992	182.5	4.5	2.9	6.8480	105.4	137.6	−8.0	−21.5	1591.5	95.6	145.9	−17.8	−13.6	0.7359	87.1
1993	179.6	13.3	8.0	6.6281	109.1	144.9	18.1	9.7	1836.7	80.5	156.0	−17.3	−13.2	0.7780	79.8
1994	198.9	12.6	5.4	6.5659	110.1	161.4	18.8	13.1	1905.6	77.0	174.1	−14.4	−2.1	0.7736	80.1
1995	219.7	10.4	8.4	6.4460	113.4	181.0	21.5	21.7	2106.4	69.4	189.9	−14.1	−4.5	0.8180	78.2
1996	230.2	13.8	16.4	6.4063	113.2	200.3	35.0	33.5	1932.1	75.8	207.2	−16.7	−0.5	0.8026	77.5
4th qtr.1996	58.5	3.9	4.8	6.4976	112.5	52.3	9.4	7.5	1911.2	77.6	54.9	−3.4	0.7	0.7570	82.1
1st qtr.1997	59.4	4.6	7.1	6.5517	110.9	47.0	5.1	7.5	1917.8	77.0	58.5	−3.5	1.9	0.7166	87.0
2nd qtr.1997	62.8	7.6	10.3	6.5769	109.8	54.0	6.8	6.2	1924.8	76.3	61.3	−4.3	1.3	0.6960	89.5
3rd qtr.1997	65.9	7.7	7.6	6.6261	108.2	52.6	8.8	8.1	1918.8	76.1	64.4	−3.8		0.6705	92.1
October 1996	19.8	1.8	2.3	6.4770	112.8	19.1	4.0	4.0	1911.4	77.5	18.2	−0.9	n.a.	0.7904	79.4
November	18.7	0.9	1.0	6.5001	112.6	17.1	3.0	3.0	1922.6	77.2	18.1	−1.3	n.a.	0.7642	82.8
December	19.9	1.2	1.5	6.5156	111.9	17.2	2.2	1.2	1899.5	78.1	18.6	−1.2	n.a.	0.7465	84.4
January 1997	19.3	1.6	3.2	6.5512	111.2	14.3	0.9	3.7	1898.7	78.2	19.2	−0.8	n.a.	0.7296	86.2
February	20.0	1.6	2.6	6.5539	110.6	18.0	2.0	2.0	1918.8	76.8	19.6	−1.1	n.a.	0.7132	87.5
March	20.1	1.4	1.0	6.5502	110.7	18.9	2.2	1.8	1907.9	75.9	19.1	−0.9	n.a.	0.7127	87.5
April	20.9	2.3	3.8	6.5715	110.3	17.8	2.1	2.1	1931.8	75.3	20.5	−1.3	n.a.	0.6997	89.4
May	20.8	2.5	3.4	6.5725	110.0	16.1	2.5	2.1	1925.6	76.3	19.9	−1.0	n.a.	0.7006	89.0
June	21.0	2.6	2.8	6.5923	109.1	16.1	2.1	2.0	1916.7	76.4	20.5	−1.4	n.a.	0.6878	90.2
July	22.0	3.2	3.7	6.6534	107.8	21.5	5.6	7.8	1920.1	76.1	22.4	−1.1	n.a.	0.6592	93.8
August	21.5	1.6	1.4	6.6309	107.8	12.8	2.6	1.8	1921.9	75.7	21.4	−0.9	n.a.	0.6870	92.1
September	22.4	2.9	2.6	6.5940	108.9	18.2	0.5	−1.5	1914.5	76.4	20.7	−1.8	n.a.	0.6852	90.2

Due to the introduction of the Single Market, EC countries are currently changing to a new system of compiling trade statistics. All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage, insurance and freight charges). German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade-weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

Taiwan's big rail scheme bucks trend

By Laura Tyson in Taipei

Taiwan is bucking the regional trend of scaling back or suspending large infrastructure projects in the wake of south-east Asia's financial crisis. Just as other projects are grinding to a halt, Taiwan is moving ahead as planned with a US$13.4bn high-speed rail project.

Preparation for construction of the 345km line from the capital, Taipei, in the north to the southern port of Kaohsiung begins thia month, and the final contract with the government is expected to be signed in March or April.

The European-backed consortium that won the final round of hidding last week plans to finance the giant project without a dollar of government funds.

Germany's Siemens and GEC Alsthom, an Anglo-French venture, are the foreign partners in the consortium led hy Continental Engineering and Fubon Insurance of Taiwan.

Daniel Tsai, chairman of Fubon Insurance and spokesman for the Taiwan High-speed Rail Consortium, said the group was seeking syndicated loans of T$80bn (US$2.4hn) from foreign banks and T$200bn would be supplied by domestic banks.

Bank of Taiwan, Chiao Tung Bank and International Commercial Bank of China are expected to take the lead in organising the domestic syndicated loans, but to date there has been no formal commitment.

The line is to begin service in mid-2003, and trains will cover the route in less than 100 minutes.

The project is to be carried out as a build-operate-transfer scheme, under which the rail will be turned over to government hands after 30 years.

The consortium also intends to reimburse the government for the T$105bn that it plans to spend on land acquisition along the route.

Details have yet to be fleshed out, but the scheme is likely to he financed through bond issnes and rights issues by the investors in addition to syndicated loans. It is also possible that the railway consortium will hold a flotation on the Taiwan stock exchange in a couple of years to raise funds.

Executives at the Taiwan High-speed Rail Consortium said the ticket price for the line be set at 75-80 per cent of the cost of a flight on the same route.

Drug groups seek remedy for free market

Governments are becoming more sympathetic to attempts to shore up prices in the face of Europe's single market, reports **Graham Bowley**

Cheap medicines imported from Spain for sale by chemists in the UK might seem to be a happy consequence of the European single market, at least for British consumers.

But for the world's big pharmaceuticals companies, cross-border trade in cheap drugs is divisive, stands in the way of a truly competitive single market and, they argue, endangers research and development.

Recent talks between European health officials and the pharmaceuticals industry ended on a positive note last week. Both sides declared progress, although still no consensus, in finding a solution to the trade in cross-border medicines in the European Union – so-called "parallel imports".

The dispute concerns exports from countries such as Spain and Portugal, where government controls keep prices down, to other EU countries. Some governments regulate drugs prices to make them affordable for poorer consumers. Prices in Spain and Portugal have also been historically low because drugs were not patented there until 1992.

Private dealers have discovered a lucrative trade reselling these cheap goods in countries where markets are less regulated and prices are higher, such as the UK. This is possible since EU authorities insist on the free movement of goods in the spirit of a single market.

The European Court of Justice ruled a year ago that two British companies could resell Spanish medicines in the UK, deciding that the principle of free movement of drugs took precedence over business fears that northern markets would be flooded by cheap medicines.

Despite that ruling, drugs companies insist that cheap imports undermine their business in high-price countries, which is where they do most of their research and development. They argue that without healthy profit margins, they cannot afford expensive research and that patients will suffer because ultimately they are deprived of the best drugs.

But last week's negotiations revealed that drug companies are not alone. Their worries are finding an increasingly sympathetic ear among governments which recognise the need for action to bolster Europe's pharmaceuticals industry amid fears about declining competitiveness and falling research.

"The talks showed that we all recognise that [parallel imports] are a real problem. We got much further than we did last year," said Raymond Gilmartin, chief executive of US company Merck.

In contrast to the heated and largely fruitless talks in 1996, last week's negotiations saw a framework solution hammered out which appeared to find favour with both government and industry officials.

The proposed solution foresees a three-stage lifting of government drug price controls. First, prices of over-the-counter (OTC) or self-medication drugs would be allowed to be set competitively, then generic medicines, and finally – although more controversially – the price of patent-protected drugs would be freed.

The first step is the easiest. Medicine prices in Europe's big OTC drugs market are already to a large degree determined competitively. Full competition would be relatively easy to introduce. The second stage also looks within reach as there was agreement that the generic market could be fully deregulated soon.

However, patent-protected medicines remain controversial. Governments are reluctant to relinquish price controls because the lack of competing products in this sector could lead to sharp price rises. This would make patented drugs, often the most modern medicines, too expensive for many people.

Given this reluctance, the drugs industry appears to accept that national regulations are likely to remain intact. However, it is pushing for a block on exports of patented goods to offset the continued price regulation. European officials and some industrialists doubt the legality of such a move.

"Both agree that OTC price fixing could be abolished and perhaps generic drugs are not too far from a solution too. But patented drugs remain the problem – because there are too few competing products on the market," said Paul Joachim Kubosch, a European Commission official.

The Commission is expected to set out its position on parallel imports early next year. It is expected to favour the step-by-step solution, at least for OTC and generic drugs. After that, industry hopes the communication will be taken up and acted upon by politicians, perhaps even under the British presidency of the EU in the next six months.

In the meantime, officials and companies have agreed to meet again in Frankfurt next year to take the so-called "Frankfurt process" further. They want to step up work on a database looking at the European drugs market and how prices are set. They also want to talk more about electronic commerce, a growing trend which could make national regulations irrelevant.

Another important topic is the treatment of new EU members from eastern Europe. The industry may argue that barriers to trade should be erected until these nations have developed their patent laws.

Drugs on sale in a UK chemist's shop: pharmaceutical companies are concerned about cheap imports from Spain

NEWS DIGEST

Canadians in Iraq oil deal

Iraq is expected to sign a $250m deal with Ranger Oil of Canada to develop an oilfield in the west of the country, according to reports from Baghdad. A representative for the oil company said talks with Iraq on the contract to explore and develop the oilfield were in their final stage. Ranger Oil in Toronto declined to comment.

Several oil companies have held talks with the Iraqis in recent years and have reached "understandings" on the development of oil fields, although such arrangements are thought to fall short of actual contracts.

Iraq's strategy has been to use foreign oil deals and the prospect of big infrastructure rehabilitation contracts as a means of increasing pressure for an end to the United Nations sanctions. The UN embargo prevents any investment in Iraq and the unauthorised export of Iraqi oil.

Ranger, which has operations in North America and the North Sea, produced an average of 31,500 b/d of crude oil and natural gas liquids during the first nine months of 1997. It has been active in developing oil fields in Angola, Ivory Coast and Peru. *Scott Morrison, Toronto*

■ HIGH-SPEED RAIL LINKS

New line cuts journey times

The creation of a European network of high-speed rail lines moves closer this week with the opening of a 55-mile stretch through Belgium between the French border and Brussels. The new line, costing BFr50bn ($1.37bn), will allow trains to run at up to 186mph (300kph). It will cut 30 minutes off the journey times of Channel tunnel Eurostar trains and the Thalys express trains which run between Paris, Amsterdam and Cologne.

The new line will take 30 minutes off the journey time between London and Brussels of 3 hours 15 minntes and the 1 hr 55 minutes Paris-Brussels time. The faster journeys are expected to increase the attractiveness of rail compared to airlines, which have already lost business to both Eurostar and Thalys services.

Thalys, which is a modified version of the French *trains à grande vitesse*, has boosted rail's share of the Paris-Brussels market from 24 per cent when it started in June 1996 to 40 per cent. Following completion of tha Belgian section of high-speed track Thalys services between Paris and Cologne will be increased and new services to Ostend and Namur in Belgium will be started.

When the Thalys network is complete in 2005 it will reduce the Paris-Amsterdam and Paris-Cologne journey times to about 3 hrs 25 mins.

Charles Batchelor, Transport Correspondent

■ US-JAPAN AVIATION TALKS

Talks make little progress

The US and Japan yesterday reported little progress in talks on bilateral aviation issnes, according to the Japanese transport ministry. The two sides discussed four issues: code sharing, fares, beyond rights and the number of frequencies to be increased for US carriers with limited rights under the current treaty.

The Japanese side said the US had not offered any new proposals that Japan viewed as constructive.

While both sides are widely believed to be nearing an interim deal that would open the US-Japan aviation market and boost traffic in the Asia-Pacific region, many believe there will not be a formal announcement of a pact in this round of talks.

However, both sides hope to try to structure an agreement which could be taken to next month's talks in Washington for final resolution. *International Staff*

■ LATIN AMERICAN TARIFFS

Brazil seeks wider agreement

Brazil has decided not to extend a tariff-preference agreement with Mexico which expires on December 31. "They didn't use the Brazilian preferences much," said Brazilian foreign minister Luis Lampreia. Brazilian industry had asked for the agreement with Mexico to end, he added.

Brazil wants its bilateral agreement with Mexico to be replaced by an accord with tha whole of the Mercosur customs union, in which Brazil is a partner with Argentina, Uruguay and Paraguay.

But talks for a Mercosur-Mexico agreement have foundered on Brazil's insistence that areas such as telecommunications, computers, household electric goods, and the car industry be excluded.

Argentina's bilateral trade agreement with Mexico also expires at the end of the year, hut it said it would extend the agreement by 120 days. *Reuters, Montevideo*

Asian turmoil will cut global growth

By Andrew Jack in Paris and Richard Adams and Angela Wefers in London

OECD OCDE

The financial traumas in Asia may slow growth in the world's leading economies to as low as 2.5 per cent next year, according to estimates released yesterday by the Organisation for Economic Co-operation and Development in Paris.

In its twice-yearly economic outlook the OECD forecast growth for 1998 of 2.9 per cent as a result of the economic crisis in south-east Asia – down by 0.9 per cent from previous estimates. This was based on information available up to early November and did not include the effect of more recent troubles in south-east Asia. Now, however, Ignazio Visco, the organisation's chief economist, has downgraded the growth forecast to 2.5 per cent.

"After the recent Japanese and Korean events I would think growth (next year) will not be higher than this year, [and] this year it was 2.7 per cent," Mr Visco said in Paris yesterday.

"Obviously for Japan it will be felt. in the United States, North America and Europe it will only be a few tenths of a per cent [lower]," he said.

Mr Visco suggested that growth would be sharply cut back in South Korea, from above 5 per cent to nearer 3 per cent in 1998 and thet, in Japan, 1.7 per cent now "looked too high". He said it was very difficult to make forecasts for Korea in current conditions, and the best that could be done were "educated guesses".

He emphasised that the effect on different national economies would vary sharply, depending on their degree of dependence on the countries in Asia affected by the crisis. He said it might cut growth in 1998 by 0.1 to 0.2 percentage points in Europe.

In its report, the OECD said it expects the US economy to grow by 2.7 per cent in 1998, and by 1.9 per cent in 1999. It said US economic performance "continnes to be exeptional" this year, with growth of 3.8 per cent the highest among the big seven OECD economies. Unemployment was still falling and the budget deficit had been nearly eliminated.

But it was still unclear whether this combination reflected a fundamental change in the economy, the OECD said. Short-term interest rates in the US might "need to rise by half a percentage point by next spring".

"Because this view is not shared by investora, long-term rates would rise fairly sharply," the report said. "Wage and price inflation have remained suprisingly muted." However, the OECD realised some signs of price pressures were emerging.

Even in this late stage of the business cycle, "the economy has enough forward momentum thet it will not slow to a sustainable pace unless some exogenous factor comes into play," the organisation said.

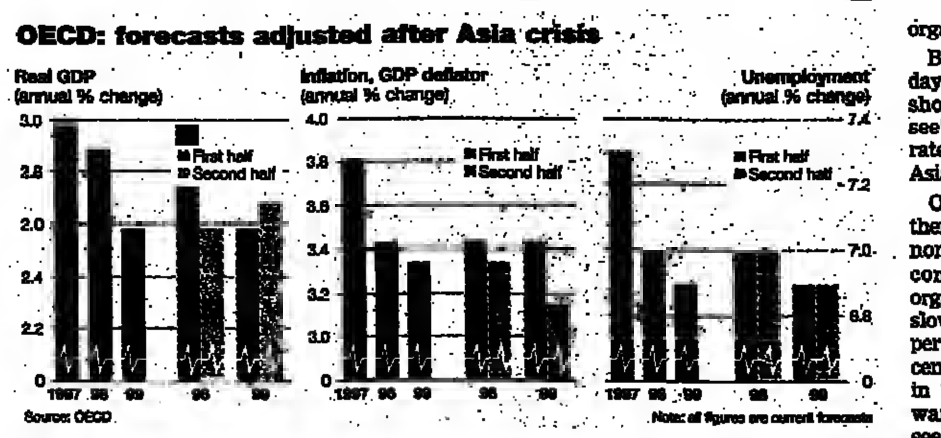
But Mr Visco said yesterday the US Federal Reserve should adopt a "wait and see" attitude over interest rates, to gauge the impact of Asia's financial turmoil.

On Canada, the OECD said there was "scope for robust non-inflationary growth in coming quarters". The organisation projects a slight slowdown in growth from 3.6 per cent this year, to 3.5 per cent in 1998 and 3.3 per cent in 1999. But the OECD also warns that Canada might see evidence of inflationary pressures.

Mexico's soundness had not been fully restored, the report said, although its GDP grew by 8 per cent in the first half of 1997, higher than expected.

Mexico's present policies were likely to sustain growth over the short term. For 1998 tha organisation expects growth of 5.4 per cent, after 6.7 per cent this year.

OECD: forecasts adjusted after Asia crisis



Source: OECD
Note: all figures are current forecasts

Concern over economic disruption of wide-area single currency

OECD issues warning on Emu

By Wolfgang Münchau, Economics Correspondent

Countries joining Europe's economic and monetary union must step up their fiscal austerity programmes or risk economic disturbances, according to the OECD.

The warning, in the latest issue of the OECD's Economic Outlook, is intended to counteract hopes in some EU countries that fiscal policy could be relaxed next year after a long period of austerity.

EU countries have been running tight budgetary policies for several years to qualify for Emu under the strict economic criteria of the Maastricht Treaty.

The OECD estimated that average budget deficits would need to be brought to less than 2 per cent of gross domestic product – from a 1997 level of about 3 per cent – to allow governments sufficient leeway in their fiscal policies. "With the loss of autonomy over national monetary policy implicit in Emu, member states will have to rely on fiscal policy for any counter-cyclical efforts," the OECD said.

Under the stability and growth pact – agreed at the Amsterdam EU summit in June – Emu participants accepted the need to restrict their future budget deficits to 3 per cent of GDP.

But the OECD said average budget deficits needed to be significantly lower than they are today, since tax revenues and government spending vary substantially throughout the economic cycle. It urged countries to take advantage of the current economic recovery to eliminate structural deficits. "The practical implication of the [stability] pact is that, to give room for automatic stabilisers to work without the fiscal deficit hitting the 3 per cent limit, member states will need to continue fiscal consolidation for some years."

The OECD also warned that Emu could have more profound economic implication for southern Europe than in the core-Emu group of Germany, France, Austria and the three Benelux countries. "Behaviour will be more difficult to predict in Italy, Portugal and Spain, where the process of interest rate convergence will leave nominal rates substantially below levels of recent years," it said.

The OECD also warned that rising interest rates next year might not be appropriete for every country. "In France where spare capacity is high but margins over German interest rates are negligible, rising short-term rates might not be helpful," it said.

For some of the smaller countries, by contrast, such as the Netherlands or Ireland, which are experiencing strong growth at present, the expected tightening next year would not be enough.

In its economic forecasts, the OECD growth at 3 per cent next year and 2.9 per cent in 1999. In France it expects growth of 2.9 per cent in 1998 and 2.8 per cent in 1999.

The OECD's comments reflect warnings by other international economists, who axpressed concern about the economic disruption likely to be caused by a wide-area Emu. Most would also agree that Emu would have only minimal consequences if it was restricted to a few core countries.

'Slight effect' of work week cuts

The impact on job creation of rednecing the working week has been minimal, the OECD said yesterday, in an analysis released shortly after the French cabinet approved draft legislation designed to cut the legal week from 39 to 35 hours, Andrew Jack reports from Paris.

The organisation highlighted a study suggesting the 1982 decision in France to increase statutory paid holidays from four to five weeks a year and cut the working week from 40 to 39 hours had only a "muted" and "meagre" effect, increasing employment by 0.1 per cent to 0.3 per cent.

Another study for some German industrial sectors suggested cutting the work week from 40 to 35 hours raised employment in the late 1980s, then contributed to lowering it since then.

Ignazio Visco, chief economist, said he had carried out no specific assessment of France's new proposals, but the OECD had a policy of fostering flexibility. "Anything that goes against that has to be viewed with suspicion."

"With Europe and the move to monetary union, there will be less scope for fiscal change and none for exchange rates. You need flexibility. You should avoid excessive rigidities".

The analysis said it was "hard to establish" the employment effect of the Robien law voted by the previous centre-right government, which offers reductions in social security payments against job creation or preservation efforts.

But it said the budgetary cost would be "considerable".

Increased flexibility could improve efficiency and have a positive effect on employment.

US grasps Iranians' olive branch

By Bruce Clark in Washington

President Bill Clinton, responding to an olive branch from Iran's leaders, said yesterday he would welcome a dialogue if it covered areas of US concern such as terrorism and destabilising weapons.

"I would like nothing better than to have a dialogue with Iran, as long as we can have an honest discussion of the relevant issues," said Mr Clinton, in a response which surprised US experts on the region by its warmth.

Officials said that, as before, Washington would insist, in any dialogue with Tehran, that the US side be represented by the administration itself and not some informal or self-appointed group of US citizens.

President Mohammad Khatami called on Sunday for a "thoughtful dialogue" with the American people but stopped short of agreeing to meet the administration. However, there was a subtle shift yesterday in the US preconditions for talks with a country which it has hitherto sought to punish and isolate.

While continuing to reject the idea of secret diplomacy with Iran, which was discredited during the Iran-contra scandal of the 1980s, the administration hinted yesterday that it would not expect the Iranian government to publicise any meeting it was having with the US.

Iran need not itself publicise its interaction with the US but "it must be prepared for it to be acknowledged pnblicly" by others, an administration official said.

US officials said they welcomed President Khatami's statements about improving relations with moderate Arab countries, and promoting civil society. But his firm opposition to the Israeli-Palestinian peace process was still a cause of serious concern.

Jeffrey Kemp, an Iran analyst at the Nixon Cantre think-tank, said the US administration had been prompted to rethink its policy towards Tehran by several recent developments.

The recent showdown with Baghdad had highlighted the difficulty of confronting both Iran and Iraq simultaneously, he said. Second, the administration was worried about a looming showdown with the European Union over a $2bn Franco-Russian investment in an Iranian gasfield which could trigger sanctions under US law.

While the administration'a policy over pipelines in the Caspian region placed overwhelming emphasis on routes through Azerbaijan and Turkey, it faced the uncomfortable reality that routes through Iran were looking increasingly attractive, Mr Kemp added.

The pro-Israeli lobby which has spearheaded calls for the isolation of Iran said it had no objection to dialogue between Tehran and the US administration.

Robin Allen adds from Tehran: Iranian businessmen yesterday emphasised the ability of Mr Khatami to talk for Iran. "This is the first time for at least 75 years that Iran has been so united behind one man."

But publisher Sadegh Samii warned "the Americans have to come up with something new," than simply repeat the slogan about wanting to see "deeds not words" from Iran.

Iran wants to be treated on an equal basis, the same as any other country," said Akbar Karbassian of Tehran's Institute of Banking. "We want no more of revenge from the US. If it can forget about the atrocities that took place during the Vietnam war, then surely the US can forget about the 444 days of hostage-taking that happened 18 years ago."

حكذا من الأصل

US hungry and homeless on increase

By Nicholas Timmins in Washington

Hunger end homelessness are continuing to rise in the US despite the booming economy – and welfare reform is likely to make the situation worse next year, the US Conference of Mayors warned yesterday.

Producing its annual survey of demand for food stamps and shelter in 29 cities, the mayors reported that requests for emergency food aid rose by a sharp 16 per cent in the year to December, up in all but four of the cities, while demand for shelter from the homeless rose by 3 per cent. Cuts in federal programmes which help with rent, and rednctions in the number of shelter beds meant that 27 per cent of requests for emergency shelter from the homeless, including families, went unmet – the highest proportion ever reported in the 15 years since the mayors started the survey.

Nineteen per cent of requests for emergency food aid also went unmet – the highest rate since 1992 when America was just emerging from recession. More than 70 per cent of the cities said they were turning people away for lack of resources.

"Low paying jobs, unemployment, cuts in food stamps that were contained in this year's welfare reform, high housing costs and low benefits in public assistance programmes," were the driving forces behind the figures, said Joseph Riley, mayor of Charleston and chairman of the mayors' task force on hunger and homelessness.

There was also grave coocern that the situation will get worse when the time limits on welfare benefits start to bite in earnest next year.

The report says: "City officials report that the strong economy has had little or no effect on either bunger or homelessness and that few people affected by these problems have benefited from the economy.

"For many of those who have gotten jobs, those jobs are low-paying and often do not provide necessary benefits." In addition, rents are rising as the economy strengthens and federal bousing aid has been capped.

Some individual cities make dire predictions for next year. Trenton in New Jersey fears "malnutrition", Salt Lake City said it faced "truly a crisis situation". Louisville, Kentucky, said "bunger and homelessness problems will grow as more young parents take low paying jobs which are unable to provide basic needs", while Nashville, Tennessee, said it expected "many homeless persons will go bungry".

Because the cash grants to states were set when welfare rolls were at their peak, many states are flush with cash at present. Action was therefore urgently needed to ensure money got down to city level where the demand for emergency assistance is felt, Mr Riley said. The mayors would be pressing the White House, Congress and the states to address that, he added.

Mexico gets new central bank chief

By Henry Tricks in Mexico City

Guillermo Ortiz, the Mexican finance minister, has unexpectedly been named to head Banco de Mexico, the central bank, raising qnestions about the autonomy of an institution often criticised for bowing tn government pressure.

The nomination by President Ernesto Zedillo followed a resounding victory by Mr Ortiz this weekend, when he managed to exploit e split in the opposition ranks to win congressional approval for the 1998 budget.

The move from the finance ministry to the central bank is considered a reward for Mr Ortiz's efforts helping the country after its 1994-95 economic crisis in the wake of the peso devaluation of December 1994.

Mr Ortiz will replace Miguel Mancera, 64, retiring at the end of the year after heading the bank since 1982.

Initial reaction in the markets yesterday was positive, and analysts said there was no doubt Mr Ortiz – who once worked in the central bank for seven years – was qualified for the new job. His nomination must be ratified by the Senate, controlled by Mr Zedillo's Institutional Revolutionary party.

Mr Ortiz will remain at the finance ministry until a replacement is appointed.

Mr Zedillo's office gave no hint as to who may be in line, but the names of José Angel Gurria, the foreign minister in charge of debt negotiations for Mexico during the 1980s debt crisis, and Carlos Ruiz Sacristán, communications and transport minister, have been mentioned.

Mr Zedillo's office stressed the president's "unbreakable commitment" to the autonomy of the central bank, as well as the priority he gives to keeping the purchasing power of the peso stable.

The president said be would present a new bill before Congress to strengthen Benco de Mexico's independence, giving it more sway over exchange rate policy and broadening its banking supervision powers.

The central bank has control over interest rates, but the finance minister has the last word on the peso. It was expected that this too would be handed over to Mr Ortiz as the new central bank governor. Mr Ortiz bas expressed his belief in Mexico's free-floating exchange rate, introduced in December 1994.

"When we started the floating rate, we viewed it perhaps as a transitory regime," be said recently.

"Now, I've changed my mind for two reasons. First, the regime has proved much more stable than I thought it would in early 1995; and second, because the extreme capital mobility we are seeing in the world suggests that there are two kinds of exchange rate that are viable." Those, he said, were either Argentina-style mooetary boards, or free-floating rates.

Analysts were divided over the message sent by Mr Ortiz's appointment, with some saying his closeness to the president cast suspicions on the autonomy of the bank and others seeing his nomination as a sign Mr Zedillo wanted to give the joh to someone with the clout to make it more independent.

Mr Ortiz is said to be committed to keeping a lid on Mexico's current account deficit at a maximum 3.5 per cent of gross domestic product and is against letting the exchange rate over-appreciate.

Ortiz: switching top jobs

Robust growth continues in US

By Nancy Dunne in Washington

The US economy signalled continuing robust growth, as the Federal Reserve yesterday reported that industrial production had surged by 0.8 per cent in November, advancing for the 20th month in a row.

The increase on the October figure would have been even higher had it not been for falls in mining and utilities. Manufacturing posted its sharpest gain in 18 months.

Despite the hefty gains, the Federal Reserve's Open Market Committee, meeting today, is not expected to reise short-term interest rates to control an overheating economy. Inflation is under control and the Consumer Price Index, released today, is expected to rise only 0.1 per cent for November, compared with the previous month. On the basis of a 0.1 per cent monthly rise, year-on-year US inflation would be 1.9 per cent – the lowest in a decade.

"The Fed has to strike a balance," said Christopher Low, senior economist at HSBC Markets, a commercial and investment banking business. "It wants to keep growth going as long as possible. There is a risk of overheating but they still have to get a handle on how much the economy will slow due to the Asia crisis. They have to provide global liquidity, and they don't want to throw the last straw on the camel's back for Japan."

Although economists have begun to fear the Asian crisis will knock more than 0.5 percentage points off annual GDP growth in 1998, Mr Low is less concerned. Exports comprise about 10 per cent of US GDP, with Asian exports about 1 per cent. There will be pockets of the country hit hard, he said. California, where half of Asian trade originates, is one of them.

The motor vehicle industry turned in a particularly good showing – a 4.5 per cent jump – and computers rose by 1.8 per cent. However, the gains last month were broadly based across the sectors. Manufacturing production rose 0.6 per cent, even excluding vehicles and computers. Output of appliances, carpeting, furniture, aircraft, chemical products, construction supplies, lumber, electrical machinery and food products also rose.

"With manufacturers' inventories under relatively good control and domestic demand still strong, further modest gains in factory production appear likely in the months just ahead," said Morgan Stanley economists.

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NEWS DIGEST

Civil rights chief named

President Bill Clinton yesterday sought to head off a potentially bruising congressional confrontation with Republicans over affirmative action, appointing a new civil rights chief without waiting for Senate confirmation. In a brief White House ceremony, Mr Clinton named Bill Lann Lee, a former lawyer for the National Association for the Advancement of Coloured People, a civil rights group, as acting assistant attorney general for civil rights.

Mr Clinton first nominated Mr Lee in June, but the appointment ran into stiff opposition from leading Republicans, including Orrin Hatch, chair of the Senate Judiciary committee, who have been highly critical of Mr Lee's stated approval of affirmative action programmes.

The decision to bypass the conventional Senate approval process for top government posts follows weeks of manoeuvring by both sides over the sensitive issue of affirmative action, expected to be a prominent topic of debate in next year's congressional elections. In initial hearings, Mr Lee said that he continued to support affirmative action.

By only approving Mr Lee to an "acting" post, Mr Clinton decided against the more controversial approach of using his executive powers formalty to appolot officials while Congress was in recess. *Mork Suzman, Washington*

■ MICROSOFT

Appeal on court ruling

Microsoft has appealed against a US District Court ruling temporarily barring it from requiring that personal computer manufacturers use its Web browser if they use its Windows software, according to a public court filing.

US District Judge Thomas Penfield Jackson issued his decision on Friday and started a months-long process to examine the views of the government and Microsoft, with a final decision likely no sooner than next June.

"We are appealing, but complying with the judge's order during the appeal," said Microsoft.

A special judicial officer, Lawrence Lessig, has been appointed to consider issues of facts and law and report back by the end of May. *Reuters, Washington*

■ ORGANIC PRODUCE

Shake-up of rules planned

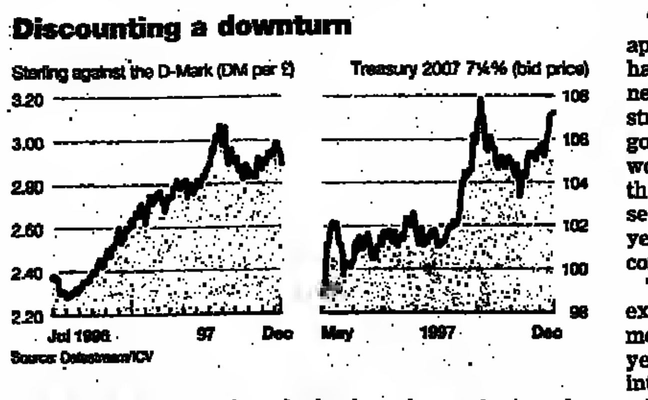
The US agriculture department yesterday proposed sweeping rules for the $3.5bn US organic food industry, paving the way for mushrooming foreign trade. In the US, organic foods produced without pesticides, hormones and other controversial additives have been regulated only by 40 states, and farmers have had to navigate a confusing patchwork of rules and certification programmes to sell their products in other states.

The proposed national standards will address methods, practices and substances used in producing and handling organic crops, livestock and processed prodocts. Organic products have become increasingly popular after food safety scares and fears imported foods may contain hazardous materials. "National standards will allow us to negotiate greater access country to country," said Dan Glickman, agriculture secretary.

"They also allow us to demand imports meet an equivalent standard, ensuring our consumers one meaning for organic for domestic and imported products." *Nancy Dunne, Washington*

Forecast of slowdown hits sterling

By Richard Adams, Economics Staff



Sterling fell more than 1 per cent against the US dollar and the D-Mark yesterday in response to a forecast that the UK economy would slow sharply next year.

The currency fell nearly two cents against the dollar, and four pfennigs against the D-Mark after the Organisation for Economic Co-operation and Development predicted that UK interest rates may have peaked and the economy would weaken faster than expected in 1998.

Sterling's decline comes as a relief for UK exporters, who have lost market share and cut profit margins because of its strength. Recent surveys have shown export orders to be at their lowest since sterling joined the European Exchange Rate Mechanism in 1992.

The report gives support to recent government policies. It attributes a fall in inflation expectations and long-term interest rates to the decision to grant independence to the Bank of England, the UK central bank, and says the introduction of the welfare-to-work programme should improve the functioning of the UK labour market.

The OECD also said the government's tighter fiscal stance should lead to a "gradual deceleration" in consumer demand, which would cool the economy.

The report said sterling's appreciation since last year had hurt the competitiveness of UK producers, as the stronger pound made their goods more expensive on world markets. It forecast that exports of goods and services would slow next year, while imports would continue to rise.

The lower export rate is expected to help activity moderate over the next two years without increased interest rates.

The OECD says output growth will slow to 2.2 per cent in 1998 and 2.1 in 1999, after growing 3.4 per cent in 1997. It assumes the Bank of England will leave interest rates at their current level of 7.25 per cent.

The OECD said: "This projection shows a 'soft landing' scenario, with output growth slowing down considerably to more sustainable levels in 1998, and inflation remaining close to the official target of 2.5 per cent."

The report expects inflation to remain subdued, because of the strength of sterling.

The pound ended at $1.6339 on the London currency market, having closed at $1.6522 last week. Against the German currency, sterling lost four pfennigs, to close at DM2.89. Sterling's trade-weighted index was down by 1.3 on the day, ending at 102.4.

Yields on UK government bond prices and interest rate future contracts also fell slightly. The 10-year benchmark gilt fell by one basis point compared with Friday.

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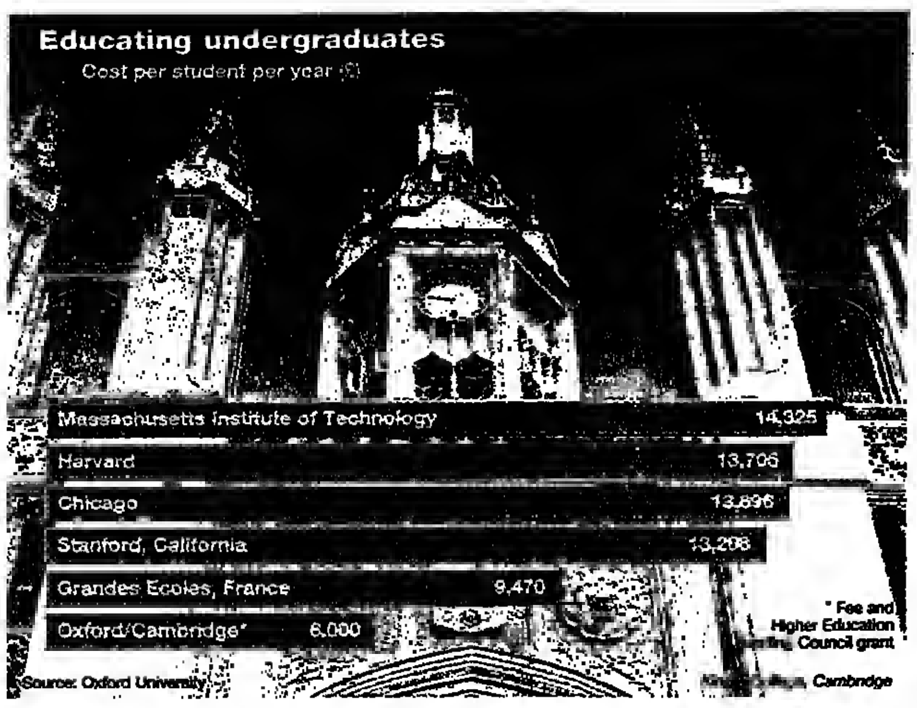
Funds reform worries elite universities

Oxford and Cambridge could keep special government grant



The ancient English universities of Oxford and Cambridge have had personal "assurances" from ministers that the government's reform of their financial privileges would not damage their international reputation for excellence.

This means that the historic universities are likely to retain much – if not all – of the £35m ($57.8m) of special funding for the élite college and tutorial system which stands at the heart of their success.

But university officials fear that if they do hold on to the extra money, they may have to sacrifice the principle of the "college fee". The extra money gives them about £2,000 more per student than other UK universities.

They are therefore seeking a urgent meeting with the government next week to thrash out a compromise which would preserve colleges' right to levy fees from students.

There is still no guarantee that the £35m is safe. When David Blunkett, the education secretary, met the two universities' vice-chancellors this week, he made clear that the government wants to see them take further steps in opening their doors to more students from state schools.

A senior government official said: "We are not asking for the dumbing down of the colleges, just a fair representation of state school pupils. Some 65 per cent of pupils who achieve three A grades at A-level attend state schools, yet this is not reflected in Oxbridge admissions." The A-level examination, which is usually taken at the age of 18, is the minimum entry requirement for universities.

Figures released just before the meeting did little to help the universities' cause. These showed that the proportion of state school pupils admitted to Cambridge this year fell from 48 per cent to 47 per cent, while the proportion of pupils from private schools, financed by parents' fees, rose to 45 per cent.

But the central debate is turning to the mechanism for distrihnting the extra funds. There is concern that the Teaching and Higher Education bill – which on Thursday had its second reading in the House of Lords, the unelected second parliamentary chamher – would pave the way for ministers to channel the special funding for Oxford and Cambridge to the universities rather than the colleges.

University officials say this could lead to the long-term damage of the college system, because departments and faculties would be entitled to bid for money, unless it was ringfenced for college use.

It also raises the possibility that the government could phase out the extra funding as it asks the universities to make efficiency gains ecross the whole institution.

However, a bigger concern is that an allied clause of the bill would rank "college fees" – which Oxford and Cambridge bursars are fond of saying have been charged "since time immemorial" – with new-fangled "top-up fees".

Under the legislation, any university charging a fee to supplement the £1,000-a-year tuition fees to be levied by all higher education institutions from next year would be liable to lose their core grant from the Higher Education Funding Council.

Baroness Perry, head of Cambridge's Lucy Cavendish College and one of the university's leading lobbyists, says: "The clause needs more than rewording. It needs to go entirely."

Some officials say the universities would rather see the special funding cut than lose the power to raise college fees. Without this, Oxbridge would not be able to compete with Harvard, Chicago and the French Grandes Ecoles. Even with the combination of college fee and government grant, the UK universities still cost less than international rivals.

Simon Targett

Taiwanese computer group may transfer assembly work from European mainland

Acer to open $50m factory in Wales

By Juliette Jowit in Cardiff

Acer Group of Taiwan, one of the world's biggest computer makers, may move assembly work from mainland Europe to its new factory in south Wales, K.Y. Lee, president of the Acer Peripherals offshoot, said in Wales yesterday.

He confirmed that a $50m monitor and peripherals plant will be set up near Cardiff, the Welsh capital, over the next five years to supply customers in mainland Europe including Acer's Europe subsidiary.

The company will consider moving assembly work from one or more of its four European operations, Mr Lee said. These are in the Netherlands, Germany, France and England. "The first five years are very important to us to decide how we can expand in the long term; then in the next five years we can look at more opportunities to expand operations," he said.

Construction is due to begin early in 1998, and Acer expects production of colour monitors to begin in August. Total capacity will be 2m monitors a year.

Following this, Acer is considering moving other operations to the Cardiff alte, principally computer assembly activity, and could raise the total number of employees to 4,000. The project is expected to create thousands of jobs indirectly through the company's policy of sourcing components and plastic mouldings from the local market.

The Welsh manufacturing operation is expected to cut lead times for monitors and peripherals from eight weeks to between two and three weeks. Improving just-in-time deliveries will be an important step in building Acer Europe's market share in time for a planned public offering, probably on the London Stock Exchange, in 2001-2002, said Graham Jackson, managing director of Acer UK.

Yesterday's announcement was foreshadowed by allegations from the Northern Development Corporation, the north-east England development agency, that the Welsh Development Agency had offered £5m ($8.25m) more in grants to attract Acer.

Ron Davies, chief minister for Wales, dismissed the claims as "unhelpful and inaccurate speculation", and stressed that Wales was in competition with the Netherlands, the headquarters of Acer Europe, as well as Scotland and north-east England. "The Welsh Development Agency was hatting for Britain as a whole," he said.

The WDA said it could not disclose the valne of the package of incentives, believed to be £8m, including the 20ha site and 2,145 sq m of purpose-hnilt factory space.

Mr Lee said the company chose Wales because of the proximity of suppliers, communications and available skills. "Subsidy is not the most important issue for long-term business management," he added.

The company also played down any threat to the project from the financial turmoil in east Asia which has led to some Korean companies scaling down or delaying investments in the UK.

"The only concern for us is that maybe demand in Asia will decrease a little bit, bnt in other parts of the world this will not disturb our investments; it may even strengthen us in terms of competitiveness," said Mr Lee.

US group looks for stake in BBC TV operation

By John Gapper, Media Editor

Discovery Channel, the US television group, is seeking a stake in the BBC's UK pay television operations as part of a planned $600m deal giving it the right to create channels based on BBC programmes around the world.

The BBC's five-year deal with Discovery has been delayed by negotiations over the US company's demand for a minority stake in UK Horizons, one of the four UKTV channels operated by the BBC and Flextech, the UK pay television group.

One of the most important products of the agreement, which is the BBC's most radical effort to exploit its programmes in the global pay television market, is a new BBC cable channel for the US, likely to be called BBC America.

Although the deal was expected to be concluded this month after the announcement in April that Discovery and the BBC had reached general agreement, it has been delayed by negotiations over this, and limits to programme rights.

Under the agreement, the BBC and Discovery are to establish a joint venture company based in New York to buy programmes at market rates from the BBC. The company will create several channels in Europe, Latin America and the US.

The BBC wants a limit of between 30 days and 60 days on the time allowed for the BBC-Discovery company to decide whether to buy the BBC programmes on offer. The BBC would then be free to try to sell any unwanted programmes elsewhere.

Discovery's demand for a minority stake in UK Horizons, the wildlife, travel and documentary channel which buys secondary UK rights to BBC programmes, could lead to the restructuring of Flextech and Discovery's European interests.

Flextech has a management contract for Discovery in Europe, and they also have shareholders in common. Tele-Communications Inc (TCI), the US cable television company, holds 36 per cent of Flextech and 49.2 per cent of Discovery.

Some Flextech directors want to achieve a stake in European operations of Discovery in return for allowing it to take part in the UKTV venture.

However, such a restructuring would need to be approved by the companies' US investors.

The Discovery-BBC deal is now expected to be signed in 1998, although the timetable has been repeatedly delayed. The deal is mainly being handled by BBC Worldwide, which is the commercial arm of the public service corporation.

Flextech confirmed yesterday that it and the BBC were in talks with a number of UK soccer clnbs about links with the planned Sports Entertainment Network channel they intend to launch within UKTV next year.

The digital channel would include links to channels controlled by individual soccer clubs.

UK NEWS DIGEST

Drinks weight defeats cars

Police and motoring organisations are concerned at the rising numbers of motorists who exceed the safe weight with which to load cars and multi-purpose vehicles during cheap excursions to buy alcoholic drinks in France being promoted by P & O and other cross-Channel ferry operators.

The promotions, allowing up to five people and a vehicle to make a return crossing to French ports for as little as £10 ($16.50), have tempted thousands of people to make the crossing to save up to 50 per cent on liquor purchases, say the ferry companies. But severe overloading is reported to have become widespread. The Automobile Association's rescue services are being called to attend at least 10 vehicles a day with broken suspensions or other mechanical damage caused by overloading.

"Some cars are so weighed down in the boot that they look as if they are doing wheelies all the way up the motorway," according to the AA. "All the money saved on the beer and drink is going to be spent on repairing the vehicles." *John Griffiths, London*

■ HEATHROW AIRPORT

Thousands evacuated in fire alert

Thousands of passengers were yesterday evacuated from London Heathrow airport's Terminal One during a fire alert. The alarm sounded shortly after 06h30 local time, and 20 minutes after the alert began it was declared a false alarm and the terminal was re-opened.

The cause was not clear, although there were suggestions of a faulty alarm system. The incident follows a blaze in Terminal One on Friday. Only 5 per cent of the building was damaged, but heavy disruption was caused during the day as flights were cancelled and delayed and traffic built up on roads nearby. An airport spokeswoman later said: "The alarm was nothing to do with Friday's incident, but it went off. So we had to clear everybody from the area as a matter of routine. It was all over in a matter of minutes."

■ COMPUTER 'BOMB'

Call for sharing of information

Large companies must share information and management expertise with their small and medium-sized partners if the worst effects of the Year 2000 computer "bomb" are to be avoided, Don Cruickshank, chairman of Action 2000 said yesterday.

Mr Cruickshank, the telecommunications watchdog, is chairman of Action 2000 on a part-time basis. The agency has been set up by the government with £1m ($1.65m) funding to help companies deal with the problem, caused by software which cannot distinguish between this century and the next. A company that failed to achieve compliance in time would be severely penalised. Mr Cruickshank said, for example, that he would not insist that telecoms operators interconnected with an operator that had failed to make ready its systems, effectively closing the company down. *Alan Cane, London*

■ NORTHERN IRELAND

Joint condemnation of riots urged

The Government yesterday urged parties in the Northern Ireland peace talks to join in condemning riots in Londonderry, the region's second largest city, during the weekend.

Violence erupted after the annual parade by the Protestant Apprentice Boys organisation through the city centre, commemorating the anniversary of the start of siege of Londonderry in 1689. The parade was targeted by about 1,000 nationalist protesters, some of whom carried petrol bombs.

Adam Ingram, a UK minister for Northern Ireland, said in the House of Commons: "Those who carried out those actions have no place in a democratic society and should be universally condemned, including by those who claim to uphold the principles of democracy and non-violence as enshrined in the Mitchell Principles."

■ PUNITIVE DAMAGES

Judges 'should retain power'

Judges should retain the power to award damages to punish companies for unacceptable behaviour, the Law Commission said yesterday.

In spite of highly publicised punitive damages awards running into hundreds of millions of dollars in the US in recent years, the Commission has rejected calls from industry for the abolition of punitive damages in the UK.

The government's law reform body said they remained a useful weapon for judges in fighting "a wide range of outrageous conduct including fraud, infringement of health and safety standards, environmental pollution and sex and race discrimination".

The commission said that in future punitive damages should be available for a civil wrong if the defendant has "deliberately and outrageously disregarded the plaintiff's rights".

Decisions to award punitive damages, and the amount, would be made only by judges, even in cases heard by a civil jury, such as libel trials. Punitive damages would also be a "last resort" remedy. *Robert Rice, London*

■ COMMUNICATIONS SURVEY

Three TV sets in 40% of homes

More than three quarters of the respondents to the UK's largest communications survey had two or more television sets in their home and 40 per cent said they had three sets or more. An overwhelming majority want better programmes rather than more channels.

This insight into the British taste for electronic entertainment emerges from a survey organised by Cable and Wireless, the UK's largest integrated telephone and television group.

It sent questionnaires to more than 1.5m homes, receiving 323,727 replies, a 22 per cent response rate which is better than average for such surveys. *Alan Cane, London*

Broadcasting code is invoked over Eurofighter

A BBC TV programme about the £42bn ($69.3bn) Eurofighter military aircraft project has provided the first test of the Broadcasting Standards Commission's new code of fairness, **our Defence Correspondeot writes.**

Using the code, British Aerospace obtained a right of reply on the programme, due to be broadcast in the UK last night. BAe expected the programme to criticise Eurofighter, of which the Royal Air Force is to buy 232. BAe is making the aircraft in partnership with German, Italian and Spanish companies. The BBC insisted its reporting would be fair and balanced. It also said the principles of the code – published in November but not in force until January – were already embodied in producer guidelines.

However, BAe used the code to request information on the tenor of the *Panoramo* programme and to obtain a list of contributors. On the basis of the BBC replies, the company elected not to participate. The Ministry of Defence also declined to take part. Both said they did not have confidence that the programme would be balanced.

BAe was angry that the programme was being broadcast while its complaint about a previous BBC programme on Eurofighter was outstanding. Thet programme alleged that the aircraft's export prospects were limited.

More directors named for City watchdog

By George Graham, Banking Editor

The UK's new Financial Services Authority yesterday filled another tier of jobs with the appointment of seven directors, all drawn from existing regulators.

The appointments, which include directors of banking, authorisation and enforcement, all come from the separate regulatory hodies which will be pulled together to make up the FSA: the Securities and Investments Board, the Bank of England, and the self-regulating organisations.

The FSA's chairman, Howard Davies, and its three managing directors – Michael Foot, Phillip Thorpe and Richard Farrant – were also drawn from the Bank and the self-regulatinmg organisations. Although the FSA has advertised for external candidates and has used Saxton Bampfylde, the headhunters, as consultants, no outside appointments have yet been made.

Senior London bankers complain that this conflicts with the government's demands that the financial services industry should second its hest and hrightest staff to the FSA.

Four jobs et director level remain unfilled: in the areas of investment business, markets and exchanges, consumer relations and finance. However, the top three tiers of the FSA are otherwise already made up of existing regulators, leaving little room for outsiders willing to consider a secondment.

The FSA has also had to compress the hierarchies of nine regulatory bodies into one. Some senior officials have heen concerned that they might lose a number of experienced regulators who missed out on the top jobs in the new organisation and were unwilling to descend a notch down the ladder.

Yesterday's appointments include Clive Briault, head of capital and wholesale markets at the Bank, as director of general policy, and Michael Blair, deputy chief executive and general counsel at the SIB, as general counsel to the FSA board.

They, along with Philip Robinson as director of communications and corporate affairs, will report to Mr Davies.

Prudential, the UK's biggest life assurer, said yesterday that it had met a December deadline for clearing np pensions mis-selling cases, putting it on target to resolve all its priority cases by the end of next March, Christopher Brown-Humes writes. The gronp failed to hit two previous deadlines linked to the pensions review, leading to a reprimand from regulators in October.

The company had to clear up 90 per cent of so-called Priority Two and Priority Three cases by the end of December. John Elbourne, Prudential Assurance managing director, said: "I am confident we will now deal with all our priority cases by the end of March."

Prudential has a total of 70,000 cases to resolve, more than any other pensions provider, and has made a £450m ($742.5m) provision to cover compensation.

TECHNOLOGY

Bruce Dorminey looks at the progress being made to help underwater geophysicists and archaeologists

Mechanical eye under the sea

University of Hawaii, School of Ocean and Earth Science and Technology

Pincer movement: sampling lavas on the Loihi seamount

Unlike their land-lubber colleagues, ocean-going geophysicists have to contend with thousands of tons of seawater just to position their instruments. Yet since the ocean floor comprises two-thirds of the planet, it is imperative to study its dynamics to understand Earth fully.

Until recently, the only permanent seafloor observatories have been in shallow coastal waters. But for the past 10 years, John Delaney, a marine geologist at the University of Washington in Seattle, has been planning a deep-sea observatory along the Juan de Fuca Ridge some 500km off the US west coast. Two segments of the ridge, one volcanically active and the other hydrothermally active, have been chosen as possible sites.

Dr Delaney foresees hundreds of instruments scattered over some 20km at each site, at a depth of 1.5km. Such a grand observational package would include everything from seismometers, biological, chemical and heat flux sensors, to video cameras and seafloor sonars that would periodically sweep the ocean bed in search of change.

From such deep-sea vantage points, new light may be shed on the way magma moves from the planet's interior on to the seabed and then how it integrates itself into the Earth's crust.

The sites would be linked to shore by 300km of fibre-optic cable, enabling two-way data flows at a rate of one gigabit per second. Robotic instruments could be directed to move as events warranted. The data would then be distributed in real time to the internet, possibly even to multimedia companies interested in live educational content for their websites.

Experiments would continue for five years, although the observatory would be expected to last up to 30 years and evolve as technology progressed.

Funding could be in place within two to three years, but the observatory would probably have to be an international partnership including government and industry. Once funding is secure, it would be possible to install the instruments and have data flowing within five years.

"We're not saying we're going to fund $20m-$30m for the Juan de Fuca project, but we are interested and accepting proposals," says Mike Reeve, an oceanographer at the US government's National Science Foundation.

The NSF is already funding the Hawaii-2 Observatory, a $2.4m deep-sea geoscience observatory run by the Incorporated Research Institutions for Seismology (Iris) and the University of Hawaii, with participation from the US Navy and the Woods Hole Oceanographic Institute in Massachusetts.

When it goes into operation next September, Hawaii-2 will operate off an electrical junction box spliced into HAW-2, an abandoned 1960s telephone cable donated by AT&T. Lying in 5.5 km of water along a relatively featureless part of the seafloor, the observatory will rest almost halfway between Hawaii and California near the Murray and Molokai Fracture zones.

With a broad-band seismometer, a geomagnetic observatory and a standard hydrophone to detect seismic events acoustically, Hawaii-2 will maximise coverage for the Iris Global Seismographic Network and contribute to the study of *tsunami*, tidal waves caused by earthquakes, and geomagnetic events.

Using digital communications, the observatory will be powered by 300 watts of electricity generated from AT&T's Makah cable station on the island of Oahu, with data being distributed via the internet.

Meanwhile, Hugo (Hawaii Undersea Geo-Observatory), a $900,000 University of Hawaii observatory that is also funded by the NSF, has recently gone into operation on top of the Loihi "seamount", an undersea mountain that is the youngest volcano in the Hawaiian chain. Thirty kms south-east of the island of Hawaii, at a depth of about 1,000m, Hugo monitors Loihi with seismometers, cameras and thermal and chemical sensors via a shore-linked fibre optic cable.

And Interridge, an international Paris-based organisation dedicated to the study of ocean ridges, is considering the possibility of installing a long-term Mid-Atlantic Ridge (MAR) monitoring system near the recently discovered Rainbow deep sea hydrothermal vent field.

Although there are no hard estimates on costs, confirmed funding or even a start date, Pascal Tarits, a marine geophysicist at France's Université de Bretagne Occidentale, sees the MAR observatory as feasible. He believes it would be well placed between islands in the Azores, whereby splicing into abandoned telephone cables it could also be powered from shore.

Dive into the past

Robots can retrieve objects beyond the reach of man

Dan Fornari, WHOI

Remote control: Jason the robot may achieve the ultimate goal

In an ambitious marriage of ocean engineering and traditional archaeology, a $1m (£600,000) undersea robot has recovered artefacts from eight shipwrecks found strewn along an ancient trade route some 160km north-west of Sicily.

Developed by the Woods Hole Oceanographic Institution in Massachusetts and adapted for archaeology by the Massachusetts Institution of Technology, Jason, a remotely operated vehicle, used sophisticated mapping and navigational techniques this summer to create a digital photomosaic of the 12 sq km wreck site in a little more than four hours.

With the help of large snowshoe-like nets, Jason retrieved ancient amphoras that were used to carry foodstuffs and household goods between Rome and Carthage. More delicate objects from the wrecks, the oldest of which was dated at 100BC, were ferried from the ROV's attached manipulator arm to an undersea elevator which then lifted them to the surface.

"The most difficult aspect is convincing the archaeological community that you can properly excavate an underwater shipwreck with a robot," says electrical engineer David Mindell, a co-principal investigator on the Mediterranean cruise and a professor in MIT's programme on science, technology, and society.

Prof Mindell and colleagues are keen not only to ensure that the artefacts are protected from commercial exploitation, but that they are properly documented and excavated every step of the way.

Exact, Jason's navigation system, which Prof Mindell developed from a 300kHz very high frequency sonar, helps facilitate such accuracy down to a cubic centimetre, thus allowing the researchers to pinpoint any given location within the excavation site.

But first they have to locate the wrecks. That is virtually impossible with only an ROV. So, last summer, the team used the US Navy's NR-1 nuclear research submarine and its long-range sonar to search near the seafloor at distances of some 800m per scan.

In 1999, Prof Mindell will again take to the seas using the navy submarine and Jason for a joint Black Sea cruise with the Institute for Exploration in Connecticut, MIT and the University of Pennsylvania in Philadelphia.

The focus of the estimated three-week cruise, which will cost about $2m, will be an ancient principal north-south trade route linking the Eurasian steppe to Anatolia, the Bosphorus, and the Middle East.

It was over this long-distance sea route, during periods ranging from the Bronze Age to the late Byzantine era (5000BC to AD1000), that wooden trade vessels endured acts of war and treacherous waters.

As a result, the team expects to find a large field of wrecks off the coast of Sinop, the ancient Turkish port lying at the northernmost promontory of the Anatolian coast, some 350km east of Istanbul.

"No one else is doing this kind of deep-sea archaeology, so this is complete *terra incognita*," says Fredrik Hiebert, a near-eastern archaeologist and director of the Black Sea Trade Project at the University of Pennsylvania in Philadelphia.

Due to the stagnant nature of its great depths, the Black Sea is almost devoid of oxygen. That gives archaeologists visions that the 1999 cruise may find shipwrecks preserved almost as the day they sank, complete with bits of flesh, clothing and organic material.

"The ultimate goal," says Prof Mindell, "is to find a perfectly preserved ship with the sails intact and people still sitting at the oars."

BD

Smooth torque from new gearbox

Efforts by car designers to find a more efficient alternative to the conventional gearbox were fuelled over the weekend by a British engineering group winning the Grand Prix at the European Inventions Competition in Monte Carlo. The annual contest, run by the principality of Monaco, is Europe's premier forum for inventors.

The award to Christopher Greenwood, of the BTG subsidiary Torotrak, was for a transmission which could revolutionise transmission systems by replacing them with a smaller unit providing an infinite number of ratios. Unlike all current transmissions, Torotrak's model does not require any device for starting from a standstill, such as a clutch or a torque converter.

At present, all transmission systems, including automatics, require de-coupling of the engine from the wheels when at rest or changing gear. But Torotrak says its development of the infinitely variable transmission (IVT) concept, using a torque-driven, fluid coupling in the engine, makes this unnecessary. Apart from smoother driving, the IVT system is claimed to improve fuel economy by up to 20 per cent and to cut significantly CO2 emissions. Torotrak already has licensing agreements with Ford and Toyota, and hopes to produce its transmissions commercially in the next decade.

For those who cannot do without a conventional gearbox, Torotrak will contain control software allowing the driver to choose the transmission's characteristics, for example, to simulate a clutchless manual gearbox, or to behave as a completely "seamless" automatic.

Torotrak's system is an improvement on the costly continuously variable transmission (CVT), which replaces three or four gears by a system of pulleys – providing variable ratios between standstill and top speed. CVT costs an extra £1,000 and can be installed only in smaller models. Torotrak says its invention can be used in any vehicle and will cost no more than a manual gearbox.

Arkady Ostrovsky

LAW

France rapped over farmers

EUROPEAN COURT

In a landmark judgment last week the European Court of Justice censured France for failing to control the actions of its farmers in destroying imported agricultural produce from other European Union countries.

For more than a decade, the European Commission had received regular complaints about the French authorities' failure to act in the face of violent behaviour by French farmers directed against such imports as strawberries from Spain and tomatoes from Belgium. Lorries had been intercepted and attacked, and wholesalers and retailers threatened.

Although France maintained it had always condemned the actions of its farmers and had taken some preventative measures, the Commission argued it could have done more.

Accordingly, it brought proceedings alleging France had failed to fulfil its obligations under the common organisation of the markets in agricultural products and Articles 30 and 5 of the Treaty of Rome. Article 30 prohibits quantitative restrictions on intra-EU trade. In previous cases the Court had stated that Article 30 applied to restrictions on trade resulting from measures enacted by a state.

The Court retraced the rationale in the Treaty for Article 30. It stated that Article 3c provides that the activities of the EU are to include an internal market characterised by the abolition of barriers to the free movement of goods. Article 7a defines the internal market as an area without frontiers in which free movement of goods is ensured. That fundamental principle of free movement is implemented by Article 30.

The Court said it followed that Article 30 not only prohibited restrictions on trade imposed by the state, but also applied where a member state failed to adopt the measures required to deal with barriers to free trade not caused by the state.

When read with the duty imposed by Article 5, the resulting obligation required member states not merely to abstain themselves from adopting measures or engaging in conduct liable to constitute an obstacle to free trade, but also to take all necessary and appropriate measures to ensure that free movement of goods was respected on their territory.

The Court said member states retained exclusive competence in maintaining public order and safeguarding internal security. They enjoyed a margin of discretion in determining what measures were most appropriate to eliminate barriers to free trade.

It was therefore not for EU institutions to act in the place of member states or to prescribe measures they should take. However, the Court said that did not preclude the Court from exercising judicial supervision over the adequacy of the measures taken.

The Court said France had not taken all appropriate measures. The incidents had continued over 10 years. Frequently, although warned of an attack, the police were not present to prevent illegal action, or did nothing to intervene.

Although demonstrations were filmed and those responsible for violence could be identified, only a very small number had been prosecuted.

While not discounting the difficulties faced by the French authorities, the Court said the measures adopted by France were manifestly inadequate.

It was not open to France to argue it had agreed to pay compensation to importers. The provision of compensation did not relieve France of its obligations under European law.

C-265/95: Commission v France, ECJ FC, December 9 1997.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Fluor seeks new chief

The search is on for a new chairman and chief executive at Fluor, the US-based global engineering, construction and diversified services company.

This follows the announcement that Leslie McCraw, 63, its chairman and chief executive, is to take early retirement due to ill-health.

The departure comes at a difficult time for Fluor which last month reported that profits for the year fell 45 per cent to $146.2m from $268.1m the previous year. Company officials have also warned that they expect profits to remain depressed in 1998 as Fluor continues a restructuring that began early this year.

Bobby Inman, chairman of the organisation and compensation committee of the Fluor Board, said that a permanent replacement for McCraw would not be immediately appointed.

It is understood that there are three strong internal candidates. However, the board has engaged an executive search firm to perform a benchmark review to evaluate both internal and external candidates.

During this process, Peter Fluor, a member of the board since 1984, and president and chief executive of Texas Crude Energy will serve as non-executive chairman.

Inman said the three senior executives reporting to McCraw – Donald Blankenship, chairman and chief executive of A T Massey and a member of the Fluor board, James Rollans, Fluor's chief administrative officer and James Stein, president and chief operating officer of Fluor Daniel – would report to Fluor until a permanent chief executive was selected. In a related action, Rollans and Stein have been elected directors of the Fluor Board.

To manage the overall affairs of the company until a permanent chief executive is named, the board has created an "office of the chairman" comprised of Fluor, Blankenship, Rollans and Stein.

Lisa Wood, London

Postipankki hires from rival lender

Postipankki, Finland's third-largest bank, has appointed Pentti Hakkarainen, managing director of rival lender Okobank, as its new chief general manager.

The move follows the announcement in October that Postipankki planned to merge with Finnish export credit, the state-controlled commercial lender.

Postipankki said it had also decided to change its board structure so it would no longer have a joint chairman and chief executive. Last week Harri Hollmén, chief executive of Finland's PV Group, became chairman of the bank. He succeeded Eino Keinänen, who has stepped down as chairman and chief executive of the bank to become chairman of PV.

The bank has also invited Maarit Näkyvä, managing director of Merita Fund Management, to join its management board. Ms Näkyvä will have responsibility for retail customers' fund management services.

Tim Burt, Stockholm

Neuber joins RWE supervisory board

Friedel Neuber, chief executive of Westdeutsche Landesbank Girozentrale, broke new ground last week when he was alected as the first supervisory board chairman of RWE not to come from either Deutsche or Dresdner Bank.

But the break with tradition means the Essen-based conglomerate has gained an overseer with an intimate knowledge of local government in the German state of North Rhine Westphalia as well as vast experience in growing an international business.

The 62-year-old Neuber's experiences as a member of Duisburg city council between 1975 and 1981 will come in handy as RWE pushes ahead with its plan for a simplified ownership structure by phasing out the multiple voting rights that have given local authorities control over the company.

His international approach to business, strongly in evidence since becoming head of the public sector owned WestLB in 1981, fits neatly with RWE's ambition to expand its foreign activities to 25 per cent of turnover by 2005.

Although famously reticent in dealing with the press and public, Neuber is nothing if not political. His time as a Social Democrat deputy in the North Rhine Westphalia state parliament between 1962 and 1975 has stood him in good stead as head of WestLB with the Düsseldorf and Bonn governments.

RWE, frequently under fire from environmentalists because of its involvement in mining brown coal for electricity generation, will no doubt expect some political advantages from Neuber's appointment in dealings with North Rhine Westphalia's quarrelsome coalition of Social Democrats and Greens.

Peter Norman, Bonn

Granada recruits Cau from Hertz

Granada, the leisure group, has appointed Antoine Cau, chief executive of Forte Hotels, Granada's hotel division. He succeeds Patrick Copeland, who left by mutual agreement.

Charles Allen, Granada group's chief executive, said: "Our ambition was to find someone who understands how to manage customer-focused businesses with a truly international perspective and who has a strong track record of growth in a major service organisation.

Cau, 50, is at present president of Hertz International and vice-president of Hertz, the international car rental group.

Lisa Wood, London

Moving places

■ SALOMON SMITH BARNEY ASIA PACIFIC has appointed Michael B. Kim chief operating officer of regional investment banking based in Hong Kong.

■ The Basle Committee on Banking Supervision, the International Organisation of Securities Commissions, and the International Association of Insurance Supervisors have appointed Alan Cameron, chairman of the Australian Securities Commission, as chairman of the JOINT FORUM on financial conglomerates. He replaces Tom de Swaan, chairman of the Basle Committee.

■ There has been a shake-up of the top management at ENTERGY the US utility group. Ed Lupberger, chairman and chief executive, said corporate restructuring and asset sales would probably be necessary within the next year or two. He also said be had asked for the resignations of Gerald McInvale, chairman and chief financial officer, and of Terry Ogletree, presideot of the international development unit. Recently, president and chief operating officer Ronald Burns resigned for family reasons.

■ Joseph Tumbler has resigned as vice-chairman of SUNAMERICA, the Los Angeles based financial services company, following the board's decision last month to extend the long-term compensation plan of Eli Broad, chairman and chief executive, until September 2003.

■ The president and group chief executive of MBf HOLDINGS of Malaysia, Tan Sri Loy Hean Heong, has died. His son, Loy Teik Ngan, has become chief executive.

■ Following the agreement to merge with Nordbanken of Sweden, the new board of Finnish banking group MERITA is: Vesa Vainio, Merita chief executive; Jacob Palmstierna, chairman of Nordbanken; Hans Dalborg, Nordbanken chief executive; Dan Andersson; Rune Brandinger; Casimir Ehrnrooth; Mikko Kivinski of Rautarukki; Bernt Magnusson; Juha Niemela and Timo Peltola.

■ NOMA INDUSTRIES of Canada said Thomas Beck is to resign as chief executive but remain chairman. Catherine Beck, the company's president, becomes president and chief executive of the company.

■ The BANK OF WESTERN AUSTRALIA, part of the Royal Bank of Scotland, has appointed Terry Budge its managing director. He will take over from Warwick Kent, who is retiring.

■ Marie-Bernard Tranoy, 52, has been appointed managing director, South Europe, of the confectionery activities of CADBURY SCHWEPPES. He has been managing director of Cadbury-France since 1995.

■ The INTERNATIONAL ATOMIC ENERGY AGENCY has announced the following appointments: Hans Christian Cars, from Sweden, becomes director of the division of general services department of administration, and Hugh Livingston, from the UK, is appointed director of the marine environment laboratory.

■ Edward R. Roberts, 63, member of the executive board of the MERCK GROUP and general partner for worldwide pharmaceuticals, is to resign next year. His successor is Bernard Scheuble, 44, head of Merck's ethical division pharmaceutical business.

■ The CONFEDERATION OF EUROPEAN PAPER INDUSTRIES has named Marie Schrewelius Arwidson director-general. She is currently vice-president, international, of the Swedish Forest Industries Association.

■ HILTON INTERNATIONAL, the hotels division of Ladbroke Group, has appointed Koos Klein president, Asia and Australia. He succeeds Richard Handl, who is retiring.

■ Hugh Sims-Hilditch, managing director of European operations for the American Tyre Corp Subsidiary URATHON has also been appointed vice-president of global marketing for ATC.

■ FLETCHER CHALLENGE, the New Zealand resources group, has appointed Michael Andrews to succeed Hugh Fletcher as chief executive.

■ UNIVERSAL STUDIOS has appointed Blair Westlake chairman of the networks and worldwide television distribution group.

■ WHIRLPOOL has named Brian F. Peters corporate vice-president and treasurer, replacing Eileen Kamerick.

■ Leroy Ritchie is to join the board of KERR-MCGEE. For the past nine years he has been vice-president and general counsel for antomotive legal affairs for Chrysler.

■ TEXAS INSTRUMENTS has announced that William Waber, vice-chairman, will retire on April 30, 1998, after more than 35 years with the company.

■ MOBILE COMPUTING of Canada has announced the resignation of its president and chief executive Andrew Gutman. Barry Gekiere will replace him on an interim basis.

■ Patrick Buffet, 44, has been appointed deputy managing director of SUEZ-LYONNAISE DES EAUX. He is a former industrial adviser to President François Mitterrand.

■ Finnish wholesaler and retailer KESCO has appointed Matti Honkala as chief executive from May 1 next year, replacing Eero Kinnunen who is to retire.

■ DELOITTE & TOUCHE has appointed Enrique Martinez de Meana managing partner and managing director for its Spanish division.

■ Patrick Suet has been appointed adviser to Philippe Jaffre, the chairman of oil group ELF AQUITAINE. Suet, 43, was previously head of former prime minister Edouard Balladur's office.

■ Dr Fritz Vahrenholt, 48, has been appointed to the board of DEUTSCHE SHELL (Hamburg). Vahrenholt has worked for regional and federal environmental authorities. He replaces Thies Korsmeier, 60, who is retiring. Agnus Cassens, 46, is to be personnel director, replacing Peter Gerhartz, who is also retiring.

■ Manfred L. Wolf, 59, has been appointed head of quality assurance at ADAM OPEL.

■ Bernard Muller, 51, chairman of Compagnie Bancaire, is to be appointed to the board of the new PARIBAS group, in charge of savings and financial services.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

ARTS

Secrets and a sense of adventure

William Packer on the surprises to be found in London galleries

The exigencies of the art critic's job are such that he is not always able to comment upon, or even to visit, every show worth noticing. The round of major institutional shows is unremitting. London is not the whole country, and of course there is abroad. And yet in London alone there are several hundred galleries, each putting on its dozen or more shows a year which, at the given moment, both gallery and artist naturally think worth serious consideration. This is no excuse: just the fact of the matter.

But the effect can be unfortunate. For though one might wish to challenge it, the position of the public and subsidised galleries, from the Tate and the Academy to Camden, Whitechapel and the Serpentine, is defensible in the emphasis they give to what the younger, more radical and experimental artists at the so-called cutting-edge of contemporary art are doing. The problem is that, in responding as we must to so much of what they show, we critics too help to confirm in the public mind the idea that indeed there is nothing else worthwhile being done. How otherwise would anyone even think, as current debate would have it, that painting is dead?

Of course it is not, and Britain's galleries are full of it. And, as always, there are surprises. In the case of Barbara Rae, whose latest work is currently on show at Art First in Cork Street, the surprise can only be surprise itself: for Rae is a Scot, working in Scotland, and contemporary Scottish art is as vigorous and distinctive a school as any – as indeed it has been for a century or more in a line that goes back to the Glasgow Boys and the Colourists.

With her rich, hot colour, bold, sure drawing, and manifest love and expressionist feel for the stuff of paint, Rae is, at 54, one of the outstanding painters of her generation. Her essential subject is the landscape, usually the wilder parts of Spain, Italy or the West of Scotland. This time it is the rugged coast and hinterland, the vineyards and mountains of South Africa's Western Cape.

These new paintings are described as mixed-media works on paper, which for her means water-colour augmented with ink, thicker body-colour and now and again more positively textured elements of collage. For all that, the work here is more direct than usual in approach and statement, the image less consciously manipulated in its feel, less tactile, less mannered. Mountains rise dark against the pink and yellow clouds, the valley glows deep red beneath the setting sun, vines rear up black against the deep blue sky. She seems to be there, on the spot. Her assurance, simple and sweeping in the statement and command of medium, are as astonishing as ever.

'McGregor Vines', 1997, by Barbara Rae: a marvellous Scottish artist who should be better known

While she now shows in London with increasing regularity, and was last year elected a Royal Academician, she seldom escapes the Scottish context, the Scottish excuse, as though Scottish art and artists should need such condescension. Yet Scottish art remains one of Scotland's better-kept secrets. Rae is not the first to suffer by it, but it remains inexcusable that, English or Scottish as may be, she should not be more widely recognised for the marvellous painter she is.

Up the road at Browse & Darby, a more senior Royal Academician, Jeffery Camp, is showing his new work, along with one or two examples from the 1980s, even the '70s. But the themes remain consistent, which show him, with his elegantly entwined lovers and soaring hang-gliders, to be at 74 as mischievously provocative as ever.

Yet the subject-matter, that he works with such wry, deceptive delicacy and discretion, is not what makes him the truly adventurous painter he is, so much as the formal trials and visual coups, in format and pictorial composition, he so triumphantly brings off. Many have painted at Beachy Head, but no other artist has ever quite caught as he has, hanging in the wind, that sense of the vertiginous drop into the void below.

In conclusion, there are several other exhibitions I would I had reviewed sooner, and perhaps still will, but for which a bare recommendation must now do: Yuko Shiraishi (at Annely Juda Fine Art, 23 Dering Street W1 until December 19) – refined minimal abstraction and box-like reliefs. Patrick Proctor (at the Redfern Gallery, 20 Cork Street W1 until December 19) – a uneven retrospective, yet the work of the 60s and 70s especially remains impressive. Martin Fuller (at KDK, 339 Portobello Road W10 until January 17) – a mature, idiosyncratic figurative expressionism, that won last year's Hunting Prize, thus the artist's first solo London show in the 1990s. John Davies (at Marlborough Fine Art, 6 Albemarle Street W1 until January 16) – oddly disturbing quasi-realist figurative sculptures of heads and full-length male nudes.

Barbara Rae: Art First, 9 Cork Street W1, until December 23. Jeffery Camp: Browse & Darby, 19 Cork Street W1, until December 19.

Theatre/**Alastair Macaulay**

Comedy suffers fools gladly

How wretched is the gloom that sinks on him who alone amid the chortling throng cannot find one single cause for open-throated mirth. No sooner does Laurence Boswell's new production of Ben Jonson's 1614 comedy, *Bartholomew Fair*, begin than – at least on press night – portions of the audience gurgle and hoot, and this carries on until curtain-calls.

The play is famous, and has been known to give delight; the staging is modern-dress, vivid, original, and employs a large roster of actors who work in impeccable ensemble. People both older and younger than myself watched it all with glee – three hours and 20 minutes of it, in this (extensively cut) production – and the most obviously delighted members of the press-night audience were both young and American. At one moment, I burst into applause: at a few other moments, I smiled. Elsewhere, however, my mind wandered; indeed, refused at several points to fix itself on all the banter and hustle of the play. Have I lost a sense of humour?

What you laugh at depends on what your values are. *Bartholomew Fair* is a heartless comedy. It satirises several different kinds of fool, and shows their discomfiture. Bawdily and richly, it ploughs through the seamy side of London life. Selfishness is all; Bartholomew Fair is also Vanity Fair. It has colour in plenty, but all on the outside.

Boswell's production shows all that, and with immense panache. It is sparky, up-to-date, slightly surreal, and at every point brightly characterised. It never made me care about any of Jonson's dramatis personae, or showed me that Jonson cared about them. But then this kind of comedy is not really about characters for whom one cares. It is perfectly possible to make an intoxicating comedy about the mayhem created by selfish people; there are several examples among Rossini's comic operas, notably *The Barber of Seville*. *Bartholomew Fair*, certainly in Boswell's staging, promises at times to intoxicate: above all when Tom Goodman-Hill, as the fool-who-is-soon-parted-from-his-money Bartholomew Cokes, takes centre-stage in a quite riveting dance, ludicrous and trendy, during which his pockets are repeatedly picked.

There are several other episodes here that are almost as ripe. Carol Macready as Ursula the pig-woman, rebuking the men around her and heaving her girth this way and that, is a very satisfying spectacle. Stephen Boxer, with his artless array of silly laughs, is a winningly blinkered Littlewit, and Poppy Miller is engaging as his trusting wife Win. As Quarlous, Roh Edwards seems the most modern, candid and relaxed person onstage. Caroline Harris gives a nice mix of gentility and vulnerability as Mistress Overdo. The scrapes into which these and other characters get themselves are very watchable.

But Jonson himself watches them from outside. My guess is that an ideal production of *Bartholomew Fair* would make all the conflicting energies and absurdities of these people infectious. But Boswell's is the best I have seen, and his actors do remarkably with bringing the language to modern life, and yet at regular intervals they might as well be talking double Dutch. Maybe an ideal production would help all their parlance to bubble into life. Or maybe an ideal production of this recalcitrant, dated play just doesn't exist.

Scene from Laurence Boswell's sparky, up-to-date production of 'Bartholomew Fair' for the RSC

Alastair Muir

In RSC repertory at the Swan Theatre, Stratford-npon-Avon. Sponsored by the Firkin Brewery.

Theatre

Carry on camping

In 1985, I was among a group of students who happened to see a 15-minute set in the Edinburgh Fringe Club Cabaret by the then-unknown Joan Collins Fan Club. In many respects, Julian Clary (for it is he) has not changed the essence of his act in the intervening 12 years, for all that the programme notes to his *Special Delivery* tour (now concluding with a month in the West End) make spurious claims to be ushering in a new phase of Clary; as he also admits therein, he has never tired of being a "camp old knacker", and frankly, it suits him.

Although he seems to feel that doubling his entendres would be a little on the generous side, Clary always comes over as more cuddly than combative. Unlike his forerunners in the realm of camp comedy (Larry Grayson and so forth), however, Clary can always top an "oo-er, did he really mean that?" laugh by making it graphically clear that he did indeed, and more.

His most precious skill, though, is his ability to handle punters. Where, say, Dame Edna Everage specialises in slowly, surgically humiliating her victims in the stalls, Clary proves that insult need not lead to injury.

He can sneer at one person's coat or another's hair, even handcuff an unfortunate to him for the finale, but the mood is always warmly bantering: even when confronted (on the press night) by his "stalker" wittering away incomprehensibly at him from the front row, he just refrains from drawing blood – not that she would have noticed.

Following the likes of Phil Kay and Graham Norton, Clary's set now includes phone calls made from the stage (last Friday, to a check up that a punter's daughter in Bishop's Stortford was behaving herself). He even sends his assistant Helga (Helen Jackson) out of the theatre, armed with a walkie-talkie, supposedly to recruit a sperm donor to father her child – for parenthood is the hook of *Special Delivery*, complete with pram upstage containing Clary's alleged son by Helga, a nipper who inevitably bears the initials KY.

The musical numbers continue to pull things up short (it's not that Clary cannot sing; he just seems a little awkward with a singing voice as low as his actually is), and the time-warp sequence is unduly contrived, but as camp old knackers go, Clary's continues to be the biggest, pinkest marquee in the field.

Ian Shuttleworth

Vandeville Theatre, London WC2, until January 3 (0171 836 9987).

INTERNATIONAL ARTS GUIDE

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Dialogues des Carmélites: by Poulenc. New production conducted by Yves Abel in a staging by Robert Carsen. Cast includes Joan Rodgers and Sheri Greenawald; Dec 16, 19

BARCELONA

EXHIBITIONS
Fundació "la Caixa"
Tel: 34-3-207 7475
Madrid-Barcelona, 1930-1936: brings together a group of around 100 avant-garde works from the period of the Second Republic, before the Civil War. Includes paintings and sculptures by Picasso, Miró and Dalí, along with photographs, posters and films; to Dec 21

BERLIN

CONCERTS
Deutsche Oper
Tel: 49-30-34384-01
Carmina Burana: by Orff. Conducted by Rafael Frühbeck de Burgos. With the Clemencic Consort conducted by René Clemencic; Dec 16, 19

Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Daniel Barenboim in works by Mendelssohn, Rihm and Bruckner; Dec 19, 20, 21

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Hänsel und Gretel: by Humperdinck. Conducted by Olaf Hanzold in a staging by Andreas Homoki; Dec 18, 21

BOLOGNA

OPERA
Teatro Comunale
Tel: 39-51-529 999
www.nettuno.it/bo/teatrocomunale
Turandot: by Puccini. Revival conducted by Daniele Gatti in a staging by Hugo de Ana; Dec 16, 18, 21

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Amistad: world premiere of Anthony Davis's new work about the 19th century-anti-slavery campaign. Dennis Russell Davies conducts a production by George C. Woolfe; Dec 17, 20

HONG KONG

EXHIBITIONS
Hong Kong Museum of Art
www.usd.gov.hk/CE/Museum
National Treasures: Gems of China's Cultural Relics. Major exhibition assembling some 160 works of art on loan from China's 30 museums. Includes bronzes, jades, ceramics, paintings and tapestries, some of which have never travelled before. The exhibition brings together objects from all over China, and ranges from the Neolithic period to the early 20th century; opens today

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● Christmas Carol Concert: Richard Hickox conducts the London Symphony Orchestra and Chorus in a programme including Humperdinck's Hansel and Gretel Overture and extracts from The Nutcracker; Dec 20, 21
● London Symphony Orchestra: conducted by Tadaaki Otaka in works by Rachmaninov. With Leif Ove Andsnes in Piano Concerto No. 3; Dec 18

Royal Festival Hall
Tel: 44-171-9288800
The Royal Opera: Elisabetta, by Donizetti. Concert performance, conducted by Carlo Rizzi; Dec 15

OPERA
Shaftesbury Theatre
Tel: 44-171-379 5399
The Royal Opera: Paul Bunyan, by Britten. New production staged by Francesca Zambello and conducted by Richard Hickox; Dec 17

LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Beethoven and John Williams; Dec 18, 20, 21

MILAN

DANCE
Teatro ella Scala
Tel: 39-2-88791
Giselle: with sets and costumes by Marie-Louise Ekman; Dec 17, 18, 20

OPERA
Teatro alla Scala
Tel: 39-2-88791
Macbeth: by Verdi. Conducted by Riccardo Muti in a staging by Graham Vick, with designs by Maria Bjornson. Casts vary; look out for Maria Guleghina and Roberto Alagna; Dec 16, 19, 21

NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
www.lincolncenter.org
● New York Philharmonic: conducted by Kurt Masur in works by Shostakovich and Prokofiev. With violin soloist Midori; Avery Fisher Hall; Dec 17, 18, 19
● New York Philharmonic: conducted by Dr Walter J. Turnbull with tha Boys Choir of Harlem; Avery Fisher Hall; Dec 20
● New York Philharmonic: Klezmerfest. With the Andy Statman Orchestra and Klezmer Conservatory Band; Avery Fisher Hall; Dec 21

DANCE
New York City Ballet, New York State Theater
Tel: 1-212-870 5570
George Balanchine's The Nutcracker; Dec 16, 17, 18, 19, 20, 21

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
● Gianni Versace: this tribute to the late Italian designer explores the influences upon his work of abstract artists including Warhol, and of historical styles ranging from Greek and Roman classicism to 18th century court styles, and the Vienna Secession. The show also explores his use of new materials such as plastic and leather, and includes designs for the theatre; to Mar 22
● Picasso – The Engraver: Selections from the Musée Picasso, Paris. Around 150 engravings, etchings and woodcuts created between 1900 and 1942. The display includes sequences which show the development of individual images, carved woodblocks and metal plates; to Dec 21

PARIS

EXHIBITIONS
Centre Georges Pnmpidou
Tel: 33-1-4478 1275
www.cnac-gp.fr
Bruce Nauman: spanning the career of the American artist, b.1941, this exhibition focuses nn his relationship with language, and includes sound and video installations as well as neon pieces like Ona hundred live and die (1984); opens today

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
Der Rosenkavalier: by Strauss. New production conducted by Edo de Waart in a staging by Herbert Wernicke. Cast includes Renée Fleming, Susan Graham and Barbara Bonney; Dec 19

Opéra National de Paris, Palais Garnier
Tel: 33-1-43439696
The Merry Widow: by Franz Lehár. Armin Jordan conducts e new production directed by Jorge Lavelli, with sets by Antonio Lagarto; Dec 19

Théâtre des Champs Elysées
Tel: 33-1-49525050
● Fidelio: by Beethoven. Production staged by Patrice Caurier and Moshe Leiser, with the Orchestre des Champs-Elysées and the Choir of the Welsh National Opera. Conducted by Louis Langrée; Dec 18, 19
● Leonore: by Beethoven. Production staged by Patrice Caurier and Moshe Leiser, and conducted by Louis Langrée. With the Orchestre des Champs-Elysées and the Choir of the Welsh National Opera; Dec 17

ROME

OPERA
Teatro dell' Opera
Tel: 39-6-481601
www.themix.it
La Fiamma: by Respighi. This first production of the season is by Hugo De Ana, and is conducted by Gianluigi Gelmetti; Dec 16, 19

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10.00: *European Money Wheel*
18.00: *Financial Times Business Tonight*

Martin Wolf

Korea's big chance

Foolish investors should not be bailed out. Instead, market forces should be allowed to rationalise the country's ailing private sector

Sun Bee Kim, the South Korean economist who works at Goldman Sachs, has argued that his country's travails ultimately stem from "socialisation of risk" – the shielding of the population from economic risk. Many westerners concur: attempts to protect the Korean economy from market forces must cease.

Yet many of those who insist on the primacy of market forces assume that "Korea", by which they mean the Korean government, will meet "its" external obligations, by which they mean the obligations of private Korean companies and banks. How passionately, it seems, do inscrutable westerners favour the free market – except when they stand to lose money.

The IMF's programme may fail to save them. Confidence has not been restored since the agreement with Korea was announced on December 3. On the contrary, the won has lost a quarter of its value even after yesterday's recovery. The combination of this depreciation with real short-term interest rates of 20 per cent must have brought many debt-burdened companies and banks closer to bankruptcy.

Rare is the government that can credibly commit itself to monetary policies expected to wreck the economy. The alternative is for a weak currency to enjoy the unlimited support of an international lender of last resort. The IMF is not such a lender. Only central banks of strong-currency countries can serve this role.

The shortage of foreign exchange for Korea is evident. The country has admitted its debts of less than a year's maturity – most of it owed by the private sector – are $110bn (£67bn), $16.3bn of which is due this month. Against this, foreign exchange reserves are some $10bn.

Of the $57bn available to Korea, only $21bn is from the IMF, about half of which is to be provided by January 8. The $10bn from the World Bank and $4bn from the Asian Development Bank are contingent on long-term structural reforms. The rest, from high-income countries, is available only in "unanticipated adverse external circumstances".

It does not take a rocket scientist to see that foreign exchange may well be insufficient. Korea can meet its obligations only if confidence is soon restored. But, particularly at a time of political uncertainty, the domestic costs seem to have undermined, rather than reinforced, it.

The question is not only whether the IMF programme *will* enable the Korean authorities to ensure short-term foreign liabilities are met. It is also whether it *should* do so. It is important to remember that western creditors chose to lend to the *chaebol*, which, they have suddenly noticed, are burdened by heavy debt. They chose to lend money to banks, which, they have apparently just realised, are strongly influenced by government.

The government itself is in excellent financial shape. For the past three years it has run a fiscal surplus of about 4 per cent of gross domestic product. Its gross financial liabilities are 0.1 per cent of GDP, while its net assets are 26 per cent of GDP. This is the second strongest fiscal position of any OECD country. The current account deficit was 4.8 per cent of GDP last year, but is expected to fall to some 2⅔ per cent this year and will probably become a big surplus quite soon.

Meanwhile, Korea's 30 largest companies have an average debt-equity ratio of three-to-one, while total corporate liabilities are double GDP. The proportion of non-performing loans in the banking system is unknown, but may be close to 15 per cent – and rising. The halving of the currency's value over the past year has itself doubled the ratio of foreign currency debt to GDP, to around 50 per cent. Most of this debt is owed by banks and companies.

The position then is that a significant proportion of Korea's companies and banks must now be insolvent, with the number increasing. But the fact that a company owes more than it is worth *does not* mean it should be closed down. That would make sense only if it were unable even to cover operating costs. At anything close to current exchange rates the proportion of Korean companies – or subsidiaries – in so dire a state must be very small.

What is needed is to recognise corporate mistakes by reconstructing finances. Enough debt needs to be turned into equity to allow companies able to cover their costs to continue operating. All creditors – including foreign ones – should be both permitted and expected to participate in these reconstructions, which would also automatically increase the diversity of ownership.

The Korean government should refuse to socialise the liabilities of any *chaebol*. It should, instead, regard this crisis as an opportunity to fragment outmoded conglomerates, widen corporate ownership and invite in foreign management.

Banks raise more difficult systemic questions. But the fundamental principle is the same. Losses should be recognised and insolvent banks closed down. The difficulty the government faces is in deciding how far it should nationalise the liabilities of insolvent banks.

Apparently, it has already decided to guarantee the foreign debts of the banking system. The legal force and scope of that commitment are both unclear. So is its desirability and, at present, the government's ability to deliver. It may even find it has no alternative to proposing a temporary moratorium on repayment of short-term foreign liabilities. This may subsequently lead to negotiation of lengthier maturities, conversion of some debt into equity or both.

If the Korean government were to make the needed commitment to financial reconstruction and reform it has so far avoided, what should be the role of fiscal and monetary policy?

The government is in a superb position to borrow domestically to cover liabilities to domestic depositors. It should be allowed to do so. It should also be permitted an aggressively expansionary fiscal policy, to offset the contraction in the private sector now under way. Korea's principal growth engine has been fixed investment, which rose 12 per cent in real terms in 1994 and 1995, and 7 per cent last year.

This is almost certain to shrink, perhaps massively. Net exports will take up some, but not all, of the slack. There is no reason why fiscal expansion should not help take the strain. Similarly, monetary policy should avoid making the private sector still sicker.

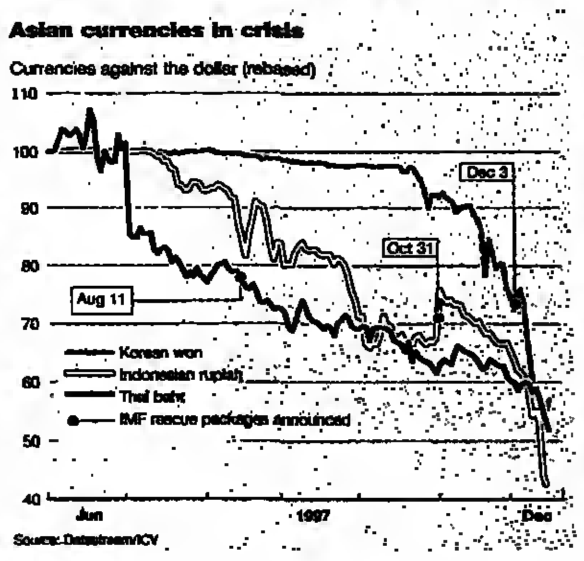
The right response to Korea's crisis is reform and reconstruction in the private economy, not austerity and retrenchment by the government. The IMF's legitimate function is to help finance the transition. It is not to bail out foreign creditors who scream for the market and reject the application of its disciplines to themselves. Believe it or not, this should be true even when those creditors are banks.

Naturally, there are risks in recognising losses where they have occurred. There are risks, too, in confronting illiquidity with payment moratoria. As the OECD points out in its latest Economic Outlook, the Asian crisis may already reduce OECD output by close to 1 per cent, other things equal, next year.

Weak-currency countries cannot hope to prevent this. The task of preventing a regional crisis from turning into global deflation falls on the great economic powers. It is up to them to act decisively, starting this week with Japan.

Asian currencies in crisis

Currencies against the dollar (rebased)



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BOOK REVIEW: Michael Holman

NELSON MANDELA: A Biography, by Martin Meredith
Hamish Hamilton, £20

After Mandela

The world venerates him. Presidents and prime ministers pay homage to him. He's forgiven the prosecutor who helped send him to jail, and he's nice to old ladies.

He took tea with Betsie Verwoerd, the wife of the architect of apartheid, and when in London last year he found time to see Margaret Thatcher, even though she once called the party he leads a "terrorist organisation".

He even helped the Springboks win the rugby world cup by rallying black South Africa behind "our boys". And he has presided over a well-nigh miraculous transfer of power.

Nelson Mandela was 75 when he became president of South Africa on that memorable day in Pretoria, May 10 1994. Although he hands over as head of the African National Congress today to his chosen successor, Thabo Mbeki, he retains overall (as opposed to day-to-day) charge of the government and will stay on as elected president until the country's next vote in 1999.

By then he will be 81. Already he is responsible for a fumbling administration that is ducking some hard choices. South Africa is crying out for the leadership of an energetic executive president, rather than a living legend.

But who will warn him that age is taking its toll, that the aura surrounding him protects his government from the criticism it deserves and needs?

Anyone who reads Martin Meredith's recent biography must surely start to wonder whether the time has not come for Mr Mandela to step aside altogether. Not that Mr Mandela's reputation is dented by any particular charge that Mr Meredith has unearthed. The South African president's heroic stature more than survives the exposure of frailties and flaws.

True, his first marriage ended unhappily: Mr Meredith implies that he may have assaulted his wife Evelyn. He was certainly a disciplinarian, if not a bully, to his son Thembi, who died when Mr Mandela was in prison on Robben Island.

Neither was Mr Mandela very good in his role as a guerrilla in Umkhonto we Sizwe, the ANC's military wing. Mr Meredith describes his "amateurish conduct in the days before his arrest ... carried away by the romantic notions of his role as commander-in-chief, the showman of the law courts now wanting to become the showman of the battlefield". And he owes a great deal to his old friend and sage adviser, Walter Sisulu, who emerges as an unsung hero.

But any criticism seems carping when set against the extraordinary tenacity that he displayed during 27 years in prison, the deft way in which he helped steer South Africa through its astonishing transition from apartheid to democracy, and the compassion that guided his efforts to reconcile a country so bitterly divided by race.

It is when you come to Mr Mandela's term in office, that the man becomes mortal. Mr Meredith's account only goes up to the end of the first year of the Mandela presidency, but the concerns he raises are pertinent.

"There was a noticeable lack of decisiveness about Mandela's administration, a lack of urgency in determining priorities and tackling them, a tendency to let government business drift," writes Mr Meredith. "It was as though the sheer size of the agenda it faced was too daunting."

Even sharper comments follow. Mr Mandela "seemed paralysed" by the antics of his wife Winnie. He quotes Archbishop Desmond Tutu on the rapid enrichment of a new elite. "The government stopped the gravy train only long enough to get on it."

Mr Mandela was seen to be soft on greed, "as lenient with his colleagues as he had been with Winnie, showing them the same kind of perverse loyalty".

Foreign policy continues to be characterised by confusion and muddle, with relations often determined as much by which governments had made contributions to the ANC as by what was in South Africa's broader interests. As the opposition Democratic party caustically commented: "If you make a substantial donation to the ANC, you get special foreign policy consideration."

Today Mr Mandela leads a coalition under strain and, in his search for consensus, he is paying a high price. He is fudging on economic reforms out of deference to the powerful Congress of South African Trade Unions which, together with the South African Communist party, remains in a tripartite alliance with the ANC.

Meanwhile, he has failed to provide the rest of Africa with the leadership it so badly needs, backing away from a confrontation with Nigeria's military regime, and proving ineffectual as he tried to influence events during the last days of the Mobutu regime in Zaire.

Mr Meredith's biography confirms Nelson Mandela's status: "The transformation of South Africa from a country riven by racial division and violence to a fledgling democracy stands as one of the supreme triumphs of the 20th century."

But his awesome reputation inhibits his friends and colleagues from advising him to move aside, and deprives the country of the robust, constructive criticism that his faltering government needs.

Nelson Mandela is available from FT Bookshop by ringing FreeCall 0500 500 635 (UK) or +44 181 324 5511 (outside the UK)

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Criticisms of IMF are unfair, inconsistent and absurd

From Mr Robert Solomon.

Sir, Jeffrey Sachs' strong criticism of the International Monetary Fund ("Power unto itself," December 11) is both unfair and inconsistent in a number of ways.

He takes the Fund to task for keeping confidential "crucial details" of IMF programmes. Yet later in his article he criticises the details of the Korean programme! That programme is fully described in an IMF release available on the web shortly after its completion.

He is also critical of the IMF for failing in its annual report to give "a hint of alarm" about Korea's and Thailand's problems. It is well known that the Fund privately advised Thai officials in 1996 and 1997 to alter their policies but it was rebuffed. Does Prof Sachs expect the IMF to publicise its criticisms of member countries' policies, thereby precipitating crises?

Another absurdity is his charge that seven IMF staff members per country is somehow insufficient. How many would he recommend?

Only in his penultimate paragraph does Prof Sachs acknowledge the existence of the executive board, which, of course, represents the member countries and presumably takes instruction from home governments.

Among his three conclusions is the charge that the Fund has "too much power", without revealing how he would lighten its responsibilities. He also accuses the executive board of rubber-stamping staff proposals.

From my knowledge, that is incorrect. Finally, he wants IMF operations to be made public. My impression is that they are.

Robert Solomon,
guest scholar,
The Brookings Institution,
8502 W. Howell Road,
Bethesda, MD 20817, US

From Mr Andrew Apostolou.

Sir, Jeffrey Sachs' call for the International Monetary Fund to "consult outside expertise in the exploratory stages of IMF operations" is undoubtedly a generous offer.

But does Prof Sachs really have the time?

Andrew Apostolou,
St. Antony's College,
Oxford, UK

Europe not passionate affair

From Mr Ian Robinson.

Sir, Dominique Moïsi's article, "Europe needs you – think positively" (December 9), was too thoughtful to use the phrase with which you announced it on the front page: "Europe: Time to inject some passion". Your phrase, however, shows a fair understanding of how Mr Moïsi's thinking will be translated by our domestic spin-doctors.

The snag is that passion is not a material that can be injected, not even by the most illegal drugs. Mr Moïsi is well aware that we are unlikely to love a merely technocratic arrangement. But the way in which "Europe" is more than that, by way of merging and diminishing nations which we do find it possible to love, somehow fails to inspire.

Mr Moïsi is not at his most convincing when he offers as a reason for loving the EU its "significant success in the fight against unemployment". The EU presents a "humane model of social and economic growth" (as against the presumably inhumane Anglo-Saxon "model!"). If unemployment into the teens per cent in France and Germany, more than 20 in Spain, is significant success for the humane model, what would count as failure?

Ian Robinson,
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Bishopstone,
Herefordshire HR4 7JE, UK

A unification of doubtful benefit to US

From Mr Allan Wendt.

Sir, Jonathan Greenwald's argument that "the US should adopt a more positive attitude towards the European Union" ("Getting to know you", December 10) is based on unsupported analysis and a kind of wishful thinking that, in my experience, often characterises the thinking of American officials accredited to the EU in Brussels. Whether or not a politically unified Europe would be better for the US than the current looser grouping, which seems a more likely eventuality following recent EU decisions on enlargement is a matter of sheer guess-work.

In any event, Mr Greenwald's suggestion that a stronger, self-assured EU would be easier for the US to deal with is highly questionable. On the contrary, given the laborious decision-making process that would underlie a unified Europe's decisions on foreign policy and security matters, US negotiators would arguably face even greater inflexibility than at present once the EU had staked out a common position.

The US should neither promote nor oppose deeper political union in Europe. When Britain and France give up their permanent seats on the UN Security Council to favour of one seat for the EU, the US will know that it must treat the EU as a genuine partner and equal on the world scene. That day still seems a long way off.

Allan Wendt,
(formerly: financial officer, US mission to EU; deputy assistant secretary of state; and US ambassador to Slovenia),
3234 Volta PL NW,
Washington DC 20007-2731, US

Assault on political baggage

From Mr John Parfitt.

Sir, You are right to call for reform of the "absurdities" of the "daft" Common Agricultural Policy ("Beef wars", December 8), but it is vain to hope that mere "attacks" by British ministers will achieve it: however well-founded, they have not done so in the past. Surely the time has come for us to give notice that we shall withdraw from the policy unless it undergoes root and branch reform within (say) 12 months. Perhaps the same should go for the Common Fisheries Policy and any other bits of political baggage the EU has acquired over the years which seem to serve no useful purpose.

John Parfitt,
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Czechs caught in speed trap

From Mr Alan Shipman.

Sir, "The Czech Republic enjoyed several years of strong growth after initial pains", says your article "Patching up the velvet revolution" (December 2). Real gross domestic product growth of 2.6 per cent in 1994, 5.8 per cent in 1995 and 4.1 per cent in 1996 is not overly impressive given the 4.8 per cent annual average contraction of the preceding four years, and Poland's 6.3 per cent annual average growth in 1994-1996.

Where, now, are those who praised the Czechs for high-speed privatisation and deregulation, and mocked the Poles for voting in 1993 to slow transition.

Alan Shipman,
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FINANCIAL TIMES

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Tuesday December 16 1997

Dilemma for the Fed

What is good for America may be less painful for General Motors than for south-east Asia. The US Federal Reserve's open market committee will be acutely aware of this when it meets today to consider the danger of US inflation.

If the recent trends in the US domestic economy could be considered in isolation, the case for a rise in interest rates, now or early next year, would look persuasive.

Consumer price inflation running at an annual rate of only 2.3 per cent does not, to be sure, signal any immediate danger. Subdued commodity prices and the recent fall in factory gate prices might also seem grounds for complacency. However, the economy continues to grow at close to 4 per cent, well above its long-term sustainable rate, while, on most estimates, spare capacity has been used up. According to the Organisation for Economic Co-operation and Development's latest Economic Outlook, the economy will continue to expand quite rapidly next year, despite the braking effect of financial turbulence in south-east Asia.

After a long period of quiescence, the US labour markets are beginning to react to the expansion. Unemployment, at 4.6 per cent of the workforce, is now significantly below the rate consistent with stable inflation, according to the OECD's estimates. This view is supported by the rise in average earnings, which accelerated in the last three months to an annual rate of 5.3 per cent. Even considering the impressive productivity gains this year, this trend looks disquieting.

However, an immediate rise in the Fed funds rate from the present 5.5 per cent might be wrong for two reasons. The first is the danger that it would push financial confidence in south-east Asian markets over another edge. The news from Korea gets steadily worse, and the possibility of a major default cannot be ruled out. A rise in US rates would reinforce the movement of short-term funds out of the region, just when an international rescue operation is trying to re-establish confidence.

There is the further possibility that rising US rates could turn market jitters into a steep fall on Wall Street, with very uncertain consequences for the US economy.

The second argument for caution is that the recent devaluations by Korea, Indonesia, Malaysia the Philippines and Thailand will help to depress prices of US tradeable goods. The OECD estimates that devaluations by the last four of these countries will raise the developed countries' effective exchange rates by as much as 6 per cent. It expects US growth to be 0.7 percentage points lower next year, compared with what it would have been without the Asian crisis. Given the recent tendency for bad news to feed upon itself, this might prove an under-estimate.

But a flood of cheap imports into the US, though inevitable, is not the ideal antidote to domestic inflation. It will also cause a lot of hollering from manufacturers and protectionist Congressmen. A rise in interest rates, on the other hand, at least has the virtue of causing more general restraint. The Fed may soon need to do this, but, given the east Asian turmoil, probably not yet.

No show

Louise Arbour, prosecutor at the International Criminal Tribunal for former Yugoslavia, was in Paris yesterday, complaining about the attitude of the French government.

French officers have consistently failed to appear as witnesses at the trials in The Hague. They submit only written testimony, usually after long wrangles between Mrs Arbour's office and the French defence ministry. Ten days ago, Alain Richard, the defence minister, confirmed that this was government policy. He also accused the tribunal of "show justice".

It was a strange outburst. All states are legally obliged to co-operate with the tribunal, and France passed the necessary legislation in 1995. In so far as the justice dispensed is for show rather than for real, that is because states with power to bring the accused before it have not done so. And no state is better placed to do so than France, which controls the Pale sector where Radovan Karadzic and other indicted Serb leaders notoriously reside.

French generals have been summoned as witnesses, not as accused. But the French government feels the distinction is blurred when witnesses are cross-examined by defence counsel – an unfamiliar "Anglo-Saxon" custom. Apparently it fears that, if not excused from this ordeal, they might be obliged to talk too much about their role as commanders of the hapless UN "protection force" during the Bosnian war. It is, you might say, a case of *qui s'excuse, s'accuse.*

Mbeki's turn

There is no doubt about the forthcoming election of Thabo Mbeki, South Africa's vice-president, to succeed Nelson Mandela as leader of the African National Congress. He is the only candidate at this week's party conference. But the task he faces in following in Mr Mandela's footsteps is daunting. It is scarcely possible to imagine a more difficult man to succeed, nor a more difficult moment to do so.

Mr Mbeki is no mean operator. He is a highly intelligent and articulate performer on the international stage, and a skilful diplomat in the minefield of post-apartheid domestic politics. He has already been running the country in effect for many months, while Mr Mandela assumed an ever more ceremonial role. He will continue to do so until the state president gracefully bows out in 1999. But the smoothness of the succession belies the turbulence ahead.

The first challenge is the political one. Mr Mbeki will preside over an organisation which is still a broad liberation movement, not a clearly focused political party. It has a powerful populist wing which is growing increasingly restive with the government's commitment to fiscal rectitude and slow but steady growth. Voices like those of Winnie Madikizela-Mandela, the president's ex-wife, attract broad grass-roots support. They may not win the day at the well-drilled party conference, but they cannot be ignored.

The real test for Mr Mbeki and his allies will be their ability to produce jobs and greater prosperity for the mass of black supporters behind the ANC. So far, the government's growth, employment and redistribution strategy has produced sluggish growth, a net decline in jobs in the formal sector, and precious little redistribution. There is a growing black middle class, which is vital for future prosperity, but it is still tiny. Mrs Mandela's constituency lies with the millions of urban and rural poor.

The temptation for Mr Mbeki must be to reinforce his alliance with the trade unions and the Communist party in the hope of keeping his own party together at bay. But they want concessions on labour market regulation and social spending which will make job creation more difficult. The government's attempts to encourage deregulation, and dismantle the corporatist apartheid state, are correct. If anything, they need to be accelerated.

Apart from the jobs challenge, Mr Mbeki must also control the criminals who are terrorising black communities and frightening off potential investors. Their activities are a result of poverty, and the collapse of an authoritarian system. Reimposing law and order will be universally popular.

The main accusation against Mr Mbeki is that he is indecisive, and spends too long seeking to build a consensus among the disparate forces supporting the ANC. Mr Mandela had the authority, as the undisputed leader of the liberation movement, occasionally to impose discipline. His successor must earn that authority by his decisiveness, for he lacks any natural constituency. If he sets clear priorities, he will ensure support at home, and attract the foreign investment he urgently needs from abroad.

New tricks, old dogs

Continental Europe is seeing a big jump in the number of hostile bids, but old alliances still hold sway, says **John Plender**

Is the Anglo-Saxon style of takeover about to transform corporate governance in continental Europe? In the big three economies – Germany, France and Italy – takeover activity is certainly stirring. France, in particular, has seen an unprecedented number of hostile bids. With the contested offer by the giant Italian insurer Assicurazione Generali for AGF in France, followed by the counter-offer from Germany's Allianz, bid fever has become a cross-border phenomenon involving the continent's biggest companies.

But feverish deal-making is not synonymous with increased efficiency. Are these bids really intended to ginger up underperforming companies and create shareholder value? Or are they primarily about corporate empire building?

In many of the bids, monetary union and the single market are cited as important motivating factors. The assumption is that there will be Europe-wide restructuring as further liberalisation and greater price transparency increase competition. Given that takeovers can provide an efficient way of shedding employees and removing surplus capacity, a more vigorous market in corporate control could be a potent mechanism for change.

To work, such a market needs institutional shareholders ready and able to use their voting power to address managerial failure. These are missing in the big continental European economies because of the paucity of funded pension schemes. However, portfolio diversification by US, UK and other foreign pension funds has filled the gap. Continental Europe now has the wherewithal for a more Anglo-Saxon style of corporate governance.

In France and Germany it is common for large quoted companies to have 30-50 per cent foreign ownership. And the run-down of large corporate cross-holdings in French industry means that foreign votes can wield real influence. Even where controlling shareholdings remain, action may be possible. The French mining company Eramet, in which the French government owned 57 per cent, recently became a battleground when foreign minority shareholders objected to the government using the company's assets to placate separatists in New Caledonia.

According to Sophie L'Hélias, a Paris based corporate governance consultant who advised the US teachers' pension fund TIAA-Cref, foreign funds owned more than 30 per cent of the Eramet equity. By filing a series of resolutions, TIAA-Cref, Soc-Gen International in New York, Britain's Mercury Asset Management and Fidelity of the US forced the government to back down.

Despite all this, generalisations about European markets remain risky. Only in Switzerland do takeovers and mergers appear to be playing a full Anglo-Saxon rationalisation role. Here the creation of the United Bank of Switzerland involves 13,000 job losses, of which 6,000 are in the over-banked Swiss domestic market.

But while foreign staff will be axed, the political sensitivities require job losses at home to be phased over three to four years. So even in Switzerland's relatively liberal capital and labour market environment *le capitalisme dur* is not an option. In countries with more rigid labour markets such as France, Spain and Italy, it is much harder to use takeovers as a cost-cutting device.

In Germany, meanwhile, hostile bids remain rare. Gerhard Cromme, the aggressive head of the Krupp Hoesch steel group, acquired Hoesch through a hostile bid in 1992. Yet his hostile offer this year for steelmaker Thyssen dissolved into a much tamer merger proposal. Hostilities are now restricted to a struggle between Mr Cromme and Thyssen's Dieter Vogel to head the combined group.

Co-determination remains an important brake on change in Germany, especially in the iron and steel industry where the rules impose greater constraints on management than in other sectors. Only marginal job losses are forecast if the Krupp-Thyssen merger goes ahead.

Yet if anything gives the lie to the arrival of a proper market in corporate control, it is the battle for the recently privatised French insurer AGF. Generali's hostile bid seemed set to purge the board of the French target company. The counter-offer sought by AGF chairman Antoine Jeancourt-Galignani from Allianz was clearly meant to pre-empt such action.

Allianz won support from AGF by proposing an arm's length relationship in which the Germans would enjoy only minority representation on the board in spite of taking a 51 per cent stake. AGF, in the meantime, was to acquire Allianz's French insurance operations.

While Allianz chairman Henning Schulte-Noelle portrayed the deal as a move to exploit new opportunities arising from economic and monetary union and an integrated European financial market, the more striking feature was the cosiness of the arrangement. Note, too, that any cross-border bid cannot be fully effective in securing cross-European rationalisation. The scope for cutting costs is limited by comparison with a domestic merger because overlaps in European financial services market are not great.

It is easier, then, to explain these moves as a shuffling of old alliances, with a modish takeover spin. All the more so, given the personalities involved. Generali's 73-year-old chairman Antoine Bernheim is also a senior partner in Lazard Frères in Paris. He occupies a similar position at Mediobanca in Milan, the fiefdom of the 90-year-old Enrico Cuccia, who has long been a kind of one-man substitute for an Italian market in corporate control.

Lazard and Mediobanca are the pre-eminent practitioners of old-style continental European investment banking in which deals of byzantine complexity are struck behind closed doors.

As so often in continental Europe, the resolution in this tortuous boardgame will be attended by potential conflicts of interest. Perhaps the most conspicuous concerns Mr Bernheim, who has to decide whether Generali should use more of its shareholders' money by raising its offer for AGF, or whether to cut a deal with Allianz and AGF to acquire their respective shareholdings in the big German insurer AMB. Generali will do so on the basis of advice from Mr Bernheim's own bank, Lazard Frères, which will earn fees from Generali for its services. Until the battle for AGF, Lazard also provided advice to Allianz.

None of this means that there will be no takeover driven restructuring in continental Europe. The novel feature is that some recent corporate reshuffling has been a little less incestuous and rather more concerned with industrial logic than in the past. Yet analysts point out that the play of giant egos remains important, as does the desire for size, whether for self-aggrandisement or as a defence against lurking predators.

Another novelty is that it is no longer possible for politicians and bureaucrats to pursue purely national solutions to problems of industrial structure. As Generali has shown with French insurance, corporate control is subject to the play of unpredictable outside forces.

It is possible that politicians will seek to put back the clock, especially in France. Since the nation's biggest industrial company Elf Aquitaine revealed that 50 per cent of its capital was owned by foreigners, politicians have been calling for barriers to foreign ownership. The question is whether the government will respond by encouraging a discriminatory two-tier ownership structure, or by promoting private funded pension schemes.

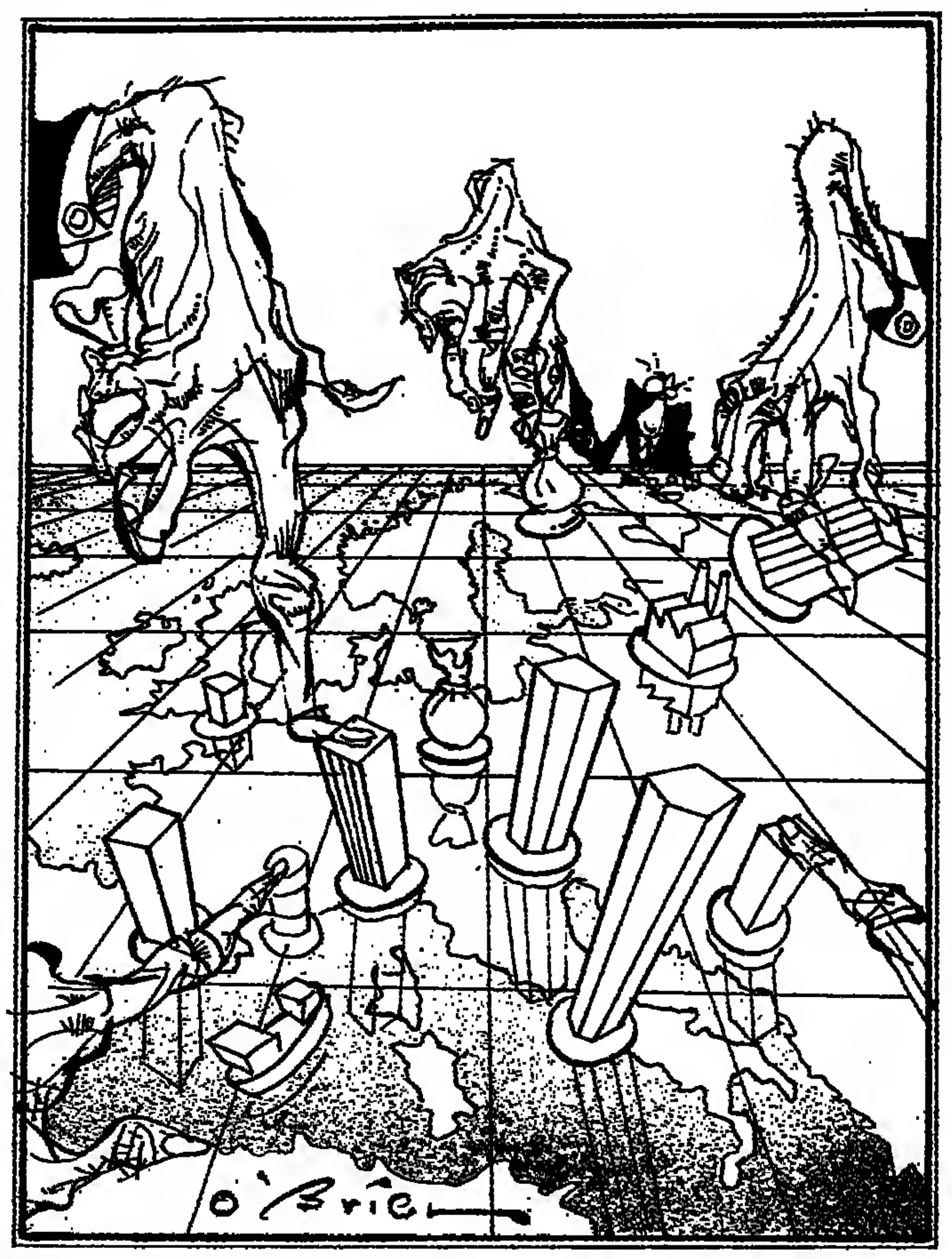
The conclusion must be that a genuine market in corporate control does not yet exist. Much power in continental European industry and commerce still belongs to a baronial gerontocracy. And this is as true of Germany as France and Italy.

The merger outcome and managerial succession at Krupp Hoesch and Thyssen, for example, lies primarily in the hands of four ageing industrialists: the 84-year-old Berthold Beitz and 77-year-old Günter Vogelsang, respectively honorary chairmen of the supervisory boards of Krupp and Thyssen; and Manfred Lennings and Heinz Kriwet, the current chairmen of the two supervisory boards, who are in their mid-to-late 60s.

But before casting aspersions on this, it is worth asking whether a genuine market in corporate control exists in the Anglo-Saxon world. When the UK industrial group T & N was recently subject to a bid from Federal-Mogul of the US, for example, its fate was in the hands of just four institutions owning 48 per cent of the equity. Is this an efficient and informed market in any conventional sense? Lord Simpson, the chief executive of Britain's GEC has profound misgivings about the growing concentration of control. He told a recent gathering of Britain's Association of Corporate Treasurers that industrialists faced the prospect of "just a dozen or so individual fund managers, none of whom is likely to have a business training, controlling the UK quoted sector, formally and informally, as it seeks to compete at home and overseas".

It is not clear that the accountability exercised by a handful of industrially inexperienced fund managers, all competing fiercely with each other for pension fund clients, is an inherently superior mechanism for transferring control when compared with the deliberations of elderly men steeped in the affairs of the industries concerned. The real message is that continental Europe and the UK suffer in corporate governance from complementary deficiencies.

Additional contributions from Peter Norman in Bonn, Andrew Jack in Paris and Paul Betts in Milan



OBSERVER

Dresdner diversions

■ Dresdner Bank would love to concentrate on banking, but embarrassing news about its directors just keeps on coming. The latest concerns Hansgeorg Hofmann, head of investment banking unit Dresdner Kleinwort Benson, who has admitted tax evasion.

The affair explains why Hofmann, an engaging 54-year-old, took the curious decision to leave the main board in Frankfurt last month to concentrate on running the investment bank from London. Dresdner's main board knew of his tax difficulties then but kept quiet: the cover-up didn't work.

Earlier this autumn, supervisory board chairman Wolfgang Röller resigned over allegations of tax evasion, which he denies. Management board member Hans-Günther Adenauer – great-nephew of former chancellor Konrad Adenauer – also left over his personal tax affairs.

Next May, the aloof management board chairman Jürgen Sarrazin steps down early, mainly because he failed to project a positive image of the financially successful bank – Germany's second-largest. His successor, the more down-to-earth Bernhard Walter, will be hoping there are no more skeletons in the closet, so that he can get on with explaining the finer points of the bank's strategy.

Index fingered

■ There has been some muttering in France lately about how the prestigious Cac-40 index of leading quoted companies is selected, increasingly so since September when construction, water and telephones group Bouygues was ousted from the index.

The company may be a household name, but its capitalisation and the volume of transactions – the main criteria used by the secretive group who decide who's "in" – had pushed it well below 40th position.

The surprise purchase of nearly 10 per cent of Bouygues's shares by financier Vincent Bolloré may boost transaction numbers as the markets speculate on a takeover bid, especially if the acquisition isn't as "friendly" as both sides claim. Interest, though, will have to be sustained for some months – the Cac-40 listing depends on transactions over a full year.

Sanders's kernel

■ Just building up an American property outfit was never going to be enough for William Sanders: he's done that before. So it wasn't a surprise to see his Security Capital digging into its piggy-bank to take the Frigoscandia refrigerated transport group off ASG's hands.

Sanders built up Chicago property consultancy LaSalle Partners before selling up in 1988 and heading off to New Mexico. Instead of sitting around enjoying his money – he was said to have made $20m on the deal – he hired a bunch of MBAs and did some serious research on the restructuring of the US corporate sector before building up Security Capital into one of Uncle Sam's biggest landlords.

Sanders isn't your average property tycoon: he does have the obligatory enormous ranch, but he's reclusive and doesn't court publicity – not even a nameplate on his Santa Fe, New Mexico, headquarters. Not so much low profile as no profile.

Pump action

■ Rumours that fuel was running out in the rump Yugoslavia have produced long queues outside Belgrade petrol stations, and many stations did indeed run out.

The official line is that there have been "technical difficulties" at the Pancevo refinery, though bankers suspect the real reason is that China, Yugoslavia's main supplier of crude, has cut deliveries following Belgrade's failure to pay for shipments received last year. President Slobodan Milosevic went to Beijing last month to ask for the bailiffs to be called off.

Hardest hit by the shortage were the *nouveaux riches* in their flash cars – unleaded petrol was the first to run out. Not such a problem for the masses, as the average age of cars on the road is 12.3 years.

Marital bliss

■ Thai government ministers' assets have been disclosed for the first time: each member of the last cabinet headed by ex-prime minister Chavalit Yongchaiyudh was worth an average of $14.5m net. Not surprising in a country where kickbacks and commissions on government contracts are an open secret, but it apparently pays even more to be a minister's wife: spouses were also obliged to declare their assets and far outstripped their husbands.

Leading the way was Phankrua Yongchaiyudh, wife of the former PM. Her husband declared assets of $355,000 on which he paid nearly $9,000 tax. She had assets of $3.13m but paid no tax: she's a housewife, you see, so she has no income.

The Financial Times

100 years ago

New Zealand Progress
Wellington, 14th Dec. The resolution of the Right Hon. Richard Seddon, the Premier, to establish a fortnightly mail service between Wellington and San Francisco, and also between Wellington and Vancouver, was passed by the House of Representatives last night. The time allowed between Vancouver and Wellington has been increased to 21½ days instead of 21. The Government railway between Pahiatua and Woodville was opened on Saturday by the Earl of Ranfurly, Governor, thereby completing the connection between Wellington and Napier by a Government railroad.

50 years ago

Confiscation In Cuba
Differences between the company and the Cuban government receive extensive reference from Mr. R.G. Mills, chairman of United Railways of the Havana and Regla Warehouses, which accompanies the 1947 accounts. A note states:- "Properties of an estimated value of over $5,000,000 belonging to the company and its subsidiaries have been compulsorily taken over by the Cuban government in pursuance of its Roadway Development Scheme."

FINANCIAL TIMES
Tuesday December 16 1997

Seoul markets recover on bridging loan hints

By John Burton in Seoul and Gillian Tett in Tokyo

Seoul's financial markets yesterday staged a strong recovery on suggestions that foreign donors to the International Monetary Fund's $57bn bail-out were preparing to offer emergency bridging loans to prevent South Korea defaulting on overseas daht.

Korea also moved to ease the pressure on its economy by announcing late yesterday that it would abandon restrictions on trading in the won and float the currency from today, at the request of the IMF.

"The foreign exchange fluctuation band will be abolished beginning on Tuesday," the Korean central bank told Reuters. "The decision was made at the request of the IMF. At first we tried to resist, but the IMF request was so strong."

Analysts welcomed tbe scrapping of the 10 per cent trading band, which was introduced late last month, replacing the previous 2 per cent band, after the currency began a steep decline against the dollar.

Before the announcement, confident claims by the Seoul government that tha worst of the recent financial turmoil was over had appeared to calm the markets.

Having fallen 30 per cent last week, the won climbed by its daily 10 per cent limit to 1,563.90 to the dollar. The Seoul bourse jumped 7 per cent to 385.80 points as interest rates dropped 165 basis points to 20.78 per cent.

Investors were also beartened by suggestions tbe US might drop initial resistance and support bridging loans, after the US and Korean presidents talked at the weekend.

But analysts warned that Seoul appeared to be boosting financial markets ahead of Thursday's presidential election. The government has injected Won11,300bn ($7.2bn) into financial institutions to ease a liquidity shortage.

Officials in Tokyo said yesterday the Bank of Japan was considering providing several billion dollars if necessary, although Korea had not made a formal request for the funds.

The support from Japan would be separate from Tokyo's $10bn contribution to the IMF rescue and would be repaid once Korea received its scheduled allotment from the IMF this month.

The Japanese support would be conditional on Seoul meeting IMF conditions for reforms.

Japanese aid would ease tensions with Seoul. Lim Chang-yuel, the Korean finance minister, last week criticised Japanese banks for exacerbating Seoul's debt problems by withdrawing $9bn in loans.

Tha international response will ba discussed today in Washington as Theo Waigel, the German finance minister, meets senior IMF and US officials. Seoul has sent Kim Mahn-je, the chairman of state-run Pohang Iron & Steel, to Washington to gain additional support.

In Tokyo the yen fell below Y131 against the dollar, its lowest since May 1992, as the market gave a sceptical greeting to the latest economic stimulus package. The measures are expected to include about Y500bn ($4bn) in tax cuts as well as a Y10,000bn government-backed bond issue to support the banking and insurance sectors. Page 4

Korea's big chance, Page 12
Seoul rally, Page 34

UBS staff face bonus cut for any 'negative behaviour'

By Clay Harris in London

Staff at Union Bank of Switzerland have been warned that "any negative behaviour" relating to its integration with Swiss Bank Corporation could result in a cut in their individual bonuses for 1997.

The memo spelling ont bonus policy, sent out over the name of Mathis Cabiallavetta, chief executive, is the latest effort by UBS to quasb dissent over the proposed merger.

The Swiss banks are also taking steps to deter UBS staff from negotiating with other potential employers and to dissuade headhunters from acting for potential poachers. Headhunters believe the new bank, wbich would be the world's second-largest, wants to remove capacity from the market.

The actions reflect the deep unease at UBS, which is expected to bear the brunt of more than 3,000 job losses in London alone. Tha combined investment hanking operations will be huilt on SBC's Warburg Dillon Read subsidiary.

Mr Cabiallavetta's memo also warns that "if any indivldnal resigns after being informed of their bonns and hefore payment, tben the bonus for 1997 will be forfeited".

Bonuses will be guaranteed to staff made redundant after being told the size of bonus in January or February, but before payment.

The combined effect may be to deter UBS staff from seeking jobs for several months, whila making it more expensive for rivals to poach disaffected teams.

The memo was meant to "provide reassurance regarding tba mechanics and decision-making procedures of the bonus round". It was co-signed by Ulrich Grete, another member of the UBS executiva board.

It says bonuses will be set exclusively by existing UBS management, based on group results and individual performance. UBS's bonus deferral policy, under wbicb some bonuses are not fully vested for three years, will be applied if it continues to exist next March.

Separately, SBC staff have been instructed again not to do anything that might be interpreted by UBS counterparts as gloating over their bank's leading role in the merger.

A memo from David Solo, SBC Warburg's chief operating officer, to logistics staff at his bank makes clear that many UBS staff will be working mainly on issues of transition and continuity during the process of integration with no mention of longer-term roles.

THE LEX COLUMN

A foreign affair

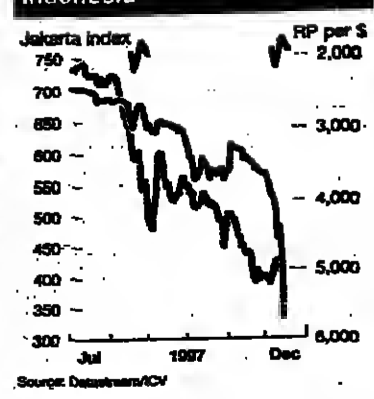
When the US Federal Reserve meets today, will its members do anything more than wish each other Merry Christmas? The markets are certainly betting that they will not raise interest rates.

Superficially, that looks like the safe option. The full effect of Asia's problems on the world economy is still unclear, but it could knock half a percentage point off US gross domestic product growth in 1998. And, as the relapse of South Korea demonstrates, there is no guarantee that all the problems have surfaced yet. Moreover, the Fed would come under severe political fire if it choked off growth just as Congress is licking its lips at the prospect of a budget surplus. That combination should be enough to stay the hand of Alan Greenspan, Fed chairman.

However, if he looked purely at the domestic economy, he might come to a different conclusion. The labour market is tight, average earnings growth is running at over 4 per cent year-on-year and money supply growth is accelerating. At some stage these wage increases will trigger inflation. The danger is that if the Fed keeps one eye fixed on the rest of the world, it will miss this point and then be forced to catch up by raising rates more than it would otherwise have needed to. The bond market has been buoyed by the safe haven status of US Treasuries of late. But it will not be able to ignore the underlying domestic concerns for ever.

FTSE Eurotop 300 index
960.8 (+0.7)

Indonesia



Source: Datastream/ICV

Diageo

In the stodgy world spirits market, fast growing brands are as scarce as sherry in the office trifle. That lends a slightly bitter taste to the Federal Trade Commission's insistence that Diageo – the merged Guinness/Grand Metropolitan group – must sell Bombay Sapphire premium gin as well as Dewar's scotch. From a low base, Bombay's volumes grew by nearly 30 per cent last year, whereas GrandMet's biggest brands, Smirnoff vodka and J&B whisky, only inched ahead. But this £23bn ($38bn) merger has always been more about the defensive benefits of cost cuts and share buybacks than organic growth.

More interesting will be the parade of prospective suitors for Dewar's and Bombay. Allied Domecq, Seagram and Pernod Ricard are already on the list of potential bidders. In auction conditions Dewar's, number one in the US scotch market, might well sell for more than 10 times its £60m annual operating profits. It would be a good result for Diageo to realise £700m-plus from all its disposals.

The light touch of competition authorities on both sides of the Atlantic has created the impression that few barriers exist to further spirits company mergers. But such laissez faire may also reflect the strength of local competition, which bodes ill for the bigger groups' chances of increasing prices and volumes in the mature markets.

Further deals will stack up only if they have similar defensive merits to that of Diageo. This is a sobering thought for anyone betting on a further re-rating for Allied Domecq.

Indonesia

The dramatic fall in Indonesian markets last week was clearly a case of better the devil you know than the one you don't. President Suharto may be a wooden-spoon winner in the political governance stakes, but he is at least a known quantity. With no successor in sight, it was little surprise that rumours of ill-health caused a nervous flutter. But what then of yesterday's further fall despite weekend pictures of an apparently healthy president tinkering with his Harley Davidson motorcycle?

Clearly the political uncertainty remains. But it is still only an overlay on the underlying financial crisis.

Of all Asia's problem economies, Indonesia's was the most highly geared. With the currency down by over 50 per cent since the start of July, companies face crippling repayment schedules on their debt. The $38bn stabilisation programme agreed with the International Monetary Fund in September has not done much to help. The government raised expectations by signing up to a stiff reform package, but failure to follow through has only prompted investor disillusion.

While the freefall in currency and share markets will abate, a sharp slowdown in the economy and a slew of corporate defaults will prevent any quick recovery. If the government were to turn its IMF rhetoric into deeds, investors would have something to cling on to. But right now the price of political stability is living with a political leadership whose reform enthusiasm remains distinctly muted.

US steel

Bethlehem Steel's $650m takeover of smaller rival Lukens signals the start of the US steel industry's long overdue consolidation. While there have been significant mergers among European steel makers, like Krupp and Thyssen, their American counterparts have been reluctant to follow suit. The high costs of rationalisation, including redundancies, asset write-downs and environmental clean-ups, are part of the reason, particularly given the historic weakness of US steel companies' balance sheets. But lack of vision among managements is also to blame. Put bluntly, conditions have not been ugly enough to prompt action. While most US steel companies have failed to return their cost of capital over the past decade, they have been profitable enough to survive.

Pressure on the industry is increasing again, however. With their high cost structures, the old, integrated producers like US Steel, Bethlehem and LTV are sandwiched between newer mini-mills and cheap imports. Nucor, the most aggressive of the mini-mills, has sharply cut prices in the past month. And the decline in Asian currencies will further fuel imports, which already take 30 per cent of the market.

Bethlehem, at least, is confronting this dilemma: the enlarged group will shut two of its six steel plate mills to cut capacity. And there is more restructuring to be done: US Steel and Inland Steel could revive this year's failed merger talks, while LTV might become a target for cash-rich British Steel. That should give steel shareholders something to smile about for a change.

Saab to stop producing civil aircraft

Continued from Page 1

worked," said Marcus Wallenberg, vice-chairman of Saab and deputy chief executive of Investor.

Saab's difficulties were exacerbated by the launch of jets such as Canadair's CRJ and a new 50-seater from Embraer of Brazil. Airlines have ordered more than 200 of those aircraft this year. Saab has fewer than 40 turboprops on its order book.

"The rush to jets has put the writing on the wall for all turboprop manufacturers and they are burting badly," said Chris Avery, aerospace analyst at Paribas in London.

Other analysts predicted a further shake-out in the industry, warning that only one or two turboprop companies might survive.

However, Mr Wallenberg said the closure did not reflect a more hard-nosed approach by Investor to its industrial holdings and emphasised that Saab would retain a strong presence in aerospace.

That is likely to involve increased emphasis on military jets – marketed overseas in co-operation with British Aerospace – and the development of a sub-contractor role on the civil side.

Investor shares fell SKr5.50 to SKr362 after it admitted tha restructuring charges would have a negative impact on its full-year figures.

EU seeks to repair links with Turkey

By John Barham in Ankara

The European Union tried yesterday to repair its damaged relationship with Turkey after the Turkish government rejected an invitation to a conference next year of present and future EU member states.

"I hope that once the initial gunsmoke of disappointment has cleared, Turkey will view the matter calmly," said Klaus Kinkel, German foreign minister. "We are not going to close the door on Turkey. Turkey belongs within Europe."

However, Turkey quickly demonstrated its intention to pursue political and trade relations independently of the EU by receiving Victor Chernomyrdin, the first Russian prime minister to visit Ankara.

Turkish officials said the discussions with Mr Chernomyrdin, wbo signed a deal to export $20bn of natural gas to Turkey over 25 years, were proof of improving ties with a regional rival.

The crisis in EU-Turkish relations blew up last weekend when EU leaders refused to place Turkey as a formal candidate for future membership in the same category as former Communist countries in central and eastern Europe.

Despite inviting Turkey to the pan-European conference in London next March, the EU called on Turkey to improve its buman rights record, protect its Kurdish minority and solve problems with Greece, including the Cyprus dispute.

Rauf Denktash, Turkish Cypriot leader, accused the EU yesterday of working against a settlement by opening membership talks next year with the internationally recognised Greek Cypriot government.

"Inter-communal talks have died and under these conditions a federation [with Greek Cypriots] is not on the agenda," he said, referring to the United Nations proposed formula for a Cyprus settlement.

Agah Oktay Güner, deputy chairman of the ruling Motherland party, said Turkey should retaliate against the EU by forming a "joint market" with Russia, central Asian countries and the states surrounding the Black Sea.

However, Russia and Turkey may be on a collision course over Cyprus. Moscow is selling anti-air missiles to the Greek Cypriot government, and Turkey says it will use force if necessary to prevent their installation.

Bülent Ecevit, deputy prime minister, was quoted by the newspaper Milliyet as saying: "Turkey's economic choices are not limited to Europe. It sbould improve its relations with tbe US and Far East countries."

He also said the two-year-old EU-Turkish customs union was "working against Turkey and should be reviewed".

FT WEATHER GUIDE

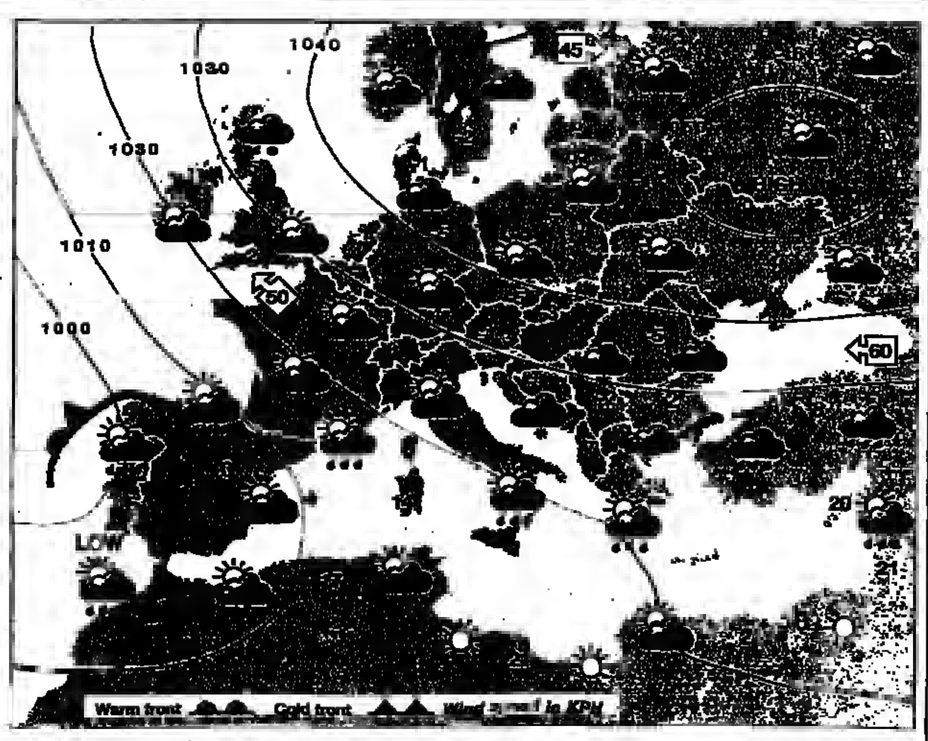
Europe today

Spain and Portugal will be unsettled with heavy showers in many places, although south-east Spain may stay dry and bright. Southern Italy and southern Greece will have sunny spells and showers.

Western, central and eastern Europe will be extremely cold with a penetrating easterly wind. It will be mostly dry, but occasional light snow flurries are likely. The Balkans may have some heavier snow. Southern Scandinavia will be fine and frosty, but northern Scandinavia and north-east Europe will be more unsettled, with milder westerly winds bringing rain to the north-west and snow to the north-east.

Five-day forecast

Eastern Europe will be mostly fine, with high pressure dominating until the weekend. The Mediterranean will remain unsettled, and it will be cold in Greece. Central and western Europe will have a recovery in temperature, but belts of rain from the Atlantic will penetrate farther eastwards.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

	Maximum/ Celcius										
		Beijing	Fair 7	Cardiff	Cloudy 3	Frankfurt	Fair -2	Madrid	Shower 10	Rangoon	Fair 33
		Belfast	Fair 5	Casablanca	Thunder 21	Geneva	Snow 1	Majorca	Thunder 15	Reykjavik	Rain 8
Abu Dhabi	Sun 25	Belgrade	Snow 1	Chicago	Sun 8	Gibraltar	Rain 17	Malta	Fair 17	Rio	Rain 25
Accra	Sun 31	Berlin	Fair -5	Cologne	Fair 1	Glasgow	Fair 6	Manchester	Cloudy 4	Rome	Fair 11
Algiers	Fair 17	Bermuda	Rain 23	Dakar	Fair 28	Hamburg	Fair -1	Manila	Thunder 31	S. Frsco	Fair 13
Amsterdam	Cloudy -1	Bogota	Shower 21	Dallas	Sun 15	Helsinki	Snow 0	Melbourne	Sun 25	Seoul	Sun 5
Athens	Shower 13	Bombay	Fair 31	Delhi	Fair 20	Hong Kong	Fair 22	Mexico City	Fair 18	Singapore	Thunder 32
Atlanta	Sun 16	Brussels	Cloudy -2	Dubai	Sun 26	Honolulu	Cloudy 27	Miami	Cloudy 22	Stockholm	Cloudy 1
B. Aires	Fair 26	Budapest	Snow 1	Dublin	Fair 8	Istanbul	Rain 9	Milan	Cloudy 7	Strasbourg	Fair 0
B.ham	Snow 2	C.hagen	Cloudy -1	Dubrovnik	hail 11	Jakarta	Thunder 31	Montreal	Shower 5	Sydney	Fair 27
Bangkok	Fair 34	Cairo	Sun 20	Edinburgh	Shower 6	Jersey	Snow 2	Moscow	Fair -18	Tangier	Thunder 18
Barcelona	Shower 11	Caracas	Fair 30	Faro	Shower 13	Johannesburg	Fair 27	Munich	Snow -5	Tel Aviv	Rain 18
						Karachi	Sun 26	Nairobi	Fair 25	Tokyo	Fair 12
						Kuwait	Fair 20	Naples	Fair 12	Toronto	Sun 8
						L. Angeles	Sun 21	Nassau	Fair 24	Vancouver	Rain 10
						Las Palmas	Fair 25	New York	Sun 12	Venice	Cloudy 7
						Lima	Fair 26	Nice	Fair 11	Vienna	Snow -3
						Lisbon	Shower 15	Nicosia	Shower 20	Warsaw	Fair -7
						London	sleet 2	Oslo	Cloudy 0	Washington	Sun 13
						Luxbourg	Cloudy -3	Paris	Fair 1	Wellington	Sun 19
						Lyon	Fair 8	Perth	Fair 27	Winnipeg	Sun -6
						Madeira	Shower 22	Prague	Cloudy -5	Zurich	Cloudy -2

FINANCIAL TIMES
COMPANIES & MARKETS
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Week 51

INSIDE

Russian oil boss sets sights high

Mikhail Khodarkovsky, the 34-year-old banker who heads Russian oil group Menatep, wants to build one of the world's biggest oil concerns. Having bought Eastern Oil, a midsized Russian company, Menatep is on the way, producing about 15 per cent of Russia's oil. But several industry analysts are sceptical about the logic behind the purchase. Page 16

Thai tycoon's awkward choice

Few Asian family businesses have risen as high in a couple of decades as that of Thailand's Prachai Leophairatana, who reputedly sees himself as the region's petrochemicals tsar. But if his Thai Petrochemical Industries is to stay at the top, the cost may be an awkward and unwanted partnership with foreign investors. Page 18

International rescue for eastern mines

When the smelter supplied by the Chelopech mine in Bulgaria spilt arsenic into the local river system, the mine closed with the loss of 1,400 jobs. That was in 1992. Now Navan Resources, a small international mining company, has brought Chelopech back to life in a typical example of how foreign capital is revitalising eastern Europe's mining industry. Page 24

Brazil makes slow recovery

Foreign investors are making a tentative return to Brazilian stocks, according to the country's central bank. But analysts say the Asian crisis exposed the fundamental weakness caused by Brazil's persistent current account and budget deficits, underlining its vulnerability to a speculative attack on the real. Page 34

Companies in this issue

Market Statistics http://www.FT.com

CROSSWORD, Page 24

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Kali & Salz	146.5	+	21.0
Einbell Haus	25.0	+	3.0
VEW	820.0	+	70.0
Falls			
Weber Prf	38.5	–	3.5
Holsten Brau	345.0	–	25.3
Schneider	275.0	–	20.0
NEW YORK ($)			
Rises			
Cordiant Com	8½	+	2¼
Lucent	24½	+	7¼
Pcfc Scientic	21⅛	+	5¾
Falls			
Compaq	52¾	–	4
Pride Intl	22¾	–	2¾
Varco Intl	20⅜	–	2⅜
LONDON (Pence)			
Rises			
Abacus Rect	205	+	37½
Anglian Water	885	+	30
Barclays	1715	+	79
Hays	804	+	37
Falls			
Danka Bus	510	–	33
ML Labs	111½	–	28½
TORONTO (C$)			
Rises			
Global Strat	8.0	+	1.0
Harmac Pcfc	10.6	+	2.8
West Copper	4.5	+	0.85
Falls			
Donohue B	24.0	–	2.0
PLD Telekom	7.0	–	1.0
St Laurent	15.5	–	1.5

PARIS (FFr)			
Rises			
Pal Marmont	520.0	+	155.0
CNIM	190.2	+	23.2
Vermand Sucre	6890.0	+	690.0
Falls			
Sagem	12.05	–	2.7
ST Dupont	68.7	–	15.4
Mumm Et Cie	912.0	–	88.0
TOKYO (Yen)			
Rises			
Citizen Watch	845	+	28
Falls			
Asahi Chem	455	–	44
JSR Corp	532	–	68
Koito Manf	457	–	76
NOK Corp	588	–	32
Toda Corp	349	–	57
HONG KONG (HK$)			
Rises			
China Light	41.0	+	1.2
Falls			
Cheung Kong	49.6	–	1.15
HSBC Hld (5)	188.5	–	4.5
Hutch Whamp	48.4	–	1.2
SHK Ppt	54.75	–	1.75
Swire Pcfc A	40.9	–	1.3
BANGKOK (Baht)			
Rises			
Hana Thip	23.0	+	5.0
Siam Steel	7.0	+	1.8
Thairung Un	13.5	+	3.0
Falls			
Central Pat	34.5	–	14.5
Thai Ind Gas	25.0	–	10.0
Union Plastic	6.3	–	2.7

New York and Toronto prices at 12.30pm.

Ford, Daimler in 'green' link-up

Alliance to develop low-pollution fuel cell units

By Andrew Fisher in Frankfurt

Ford Motor of the US is joining Germany's Daimler-Benz in an attempt to manufacture environmentally friendly vehicles by 2005, using advanced fuel cell technology which reduces both noise and emissions.

The US company will invest around C$600m ($420m) in a partnership between Daimler and Vancouver-based Ballard Power Systems, a Canadian fuel cell propulsion specialist. The investment, in the form of cash, technology and assets, will give Ford 15 per cent of Ballard and 23 per cent of DBB Fuel Cell Engines, a Daimler subsidiary which is working on the development of fuel cell systems.

Daimler said Ford's decision to join the fuel cell project would speed up the development of fuel cell-powered components for cars and trucks. Jürgen Schrempp, Daimler's chairman, said fuel cells, which generate electricity through a controlled reaction between hydrogen and oxygen and produce minimal pollution, were "a serious and promising alternative to the conventional combustion engine".

Further development of the technology could lead to the first cars powered by fuel cells being commercially available in 2005, he added. Alex Trotman, Ford's chairman, called fuel cells "one of the most important technologies for the early 21st century".

Other motor companies interested in fuel cell technology include Toyota of Japan and General Motors of the US, but Daimler believes itself to be in the lead in using fuel cells to provide power for cars, buses and trucks. Until now Ford had not played a prominent role in fuel cell development.

As a result of Ford's planned stake in Ballard, Daimler's holding in the Canadian company will drop from 25 per cent to 20 per cent. Ballard will also own 26 per cent of DBB Fuel Cell Engines, and in addition Ballard and Daimler will each hold 19 per cent of a Ford-owned company responsible for the production of electric drivetrain systems.

Mr Schrempp said in October that Daimler's planned investment in fuel cell technology would total around C$1bn. It has invested C$450m jointly with Ballard. Daimler, which owns the Mercedes-Benz vehicle producer, will also continue spending on research and development into fuel cells. Daimler three years ago unveiled an experimental hydrogen-powered electric van running on fuel cells. So far, though, the cost of fuel cell technology has been too high for practical application.

Firoz Rasul, Ballard's president, said yesterday's link with Ford and Daimler should allow the production of fuel cells at commercially viable volumes.

Daimler has concentrated on alternative drive systems and automotive fuels to harness the technology. Ford will contribute its advanced electric-vehicle powertrain technology. Once series production is reached, the systems and components will also be sold to other companies.

Prius orders exceed targets, Page 18

Astra to develop heartburn drug in US

By Tracy Corrigan in New York and Greg McIvor in Stockholm

Astra Merck, the joint venture that markets most Astra compounds in the US, plans to develop an over-the-counter version of the ulcer treatment Prilosec, the world's best-selling prescription medicine.

Under an agreement, Procter & Gamble will be responsible for marketing, selling and distributing an OTC version of the drug, for the treatment of heartburn, in the US market.

P&G already sells 20 drugs in the US OTC market. Prilosec, known as Losec outside the US, had net sales of $3.7bn worldwide and $1.7bn in the US in 1996.

The move is an effort to establish the Prilosec brand in the OTC market before the drug starts to lose its patent after 2000. Astra Merck said clinical trials would start immediately but the drug would not be available over-the-counter for several years.

Under the agreement, P&G and Astra Merck will conduct trials and clinical data required by the US Food & Drug Administration for clearance to sell the drug OTC for the treatment of occasional heartburn and acid indigestion, which are among the most common digestive complaints.

Prilosec will enter one of the most competitive areas for OTC medicines. The OTC market for heartburn treatments in the US was $1.2bn in 1996, up 50 per cent in two years. It is dominated by Zantac, Pepcid AC and Tagamet, but Prilosec is one of a new class of drugs known as proton pump inhibitors.

Analysts said the OTC version of the drug may broaden the market.

Hemant Shah, pharmaceuticals analyst at HKS, said the move was an example of the "lifecycle management of drugs" attempted by pharmaceutical companies.

"[Companies] want to build an over-the-counter franchise about a year or so before [a drug] goes off patent."

Losec was central to Astra's emergence as one of Sweden's most coveted stocks in the early 1990s, with annual sales growth of 26 per cent between 1991 and 1995. But despite strong US growth, global sales have slowed abruptly in the past year.

Denver-based investment trust makes first significant foray into Europe

SCI in $395m Scandinavian purchase

By Norma Cohen in London and Tim Burt in Stockholm

Security Capital Industrial Trust, the US's largest quoted investor in industrial property, yesterday made its first significant foray into the European market with the $395m purchase of Frigoscandia AB of Sweden, Europe's leeding refrigerated warehouse operstor.

The deal follows a two-month strategic review by ASG, the Scandinavian transport and logistics group which sold Frigoscandis, and will give Denver-based SCI its first significant foothold in the European market for refrigerated and frozen food distribution, a sector where it hopes to become market leader.

ASG accepted SCI's offer after ruling ont a demerger and flotation of Frigoscandia.

The deal highlights a trend among investors to seek out cross-border opportunities in property, as they have in equities and bonds, and the potential importance of pooled investment vehicles in this process.

Security Capital Industrial Trust is a Reit – a property investment vehicle which pays no corporation taxes provided it passes on 95 per cent of its net income to shareholders. The capitalisation of Reits in the US market now amounts to $120bn end institutional investment in the sector has grown significantly in recent years. SCI itself has a market capitalisation of around $3.3bn. Security Capital Group, its parent company, also spplies a distinctive strategy towards its investments.

While conventional property investors try to increase the value of property investments either by redevelopment or financial engineering, Security Capital views property as a service industry and says it can increase profits by offering tenants not only e property but s package of services as well. As well as premises, SCI offers transport facilities and centralised inventory management to customers.

The acquisition more than triples the size of SCI's network of warehouses.

The company already owns 18 refrigerated warehouses in the US with 78m cu ft of space and has s 5 per cent market share in that sector. SCI and Frigoscandia already hsve eight of their top 20 clients in common, including multinationals such as Nestlé, Unilever, Campbell Soup and Pepsi.

The addition of e European network will allow SCI to offer these tenants a global property service rather than one simply limited to the US market.

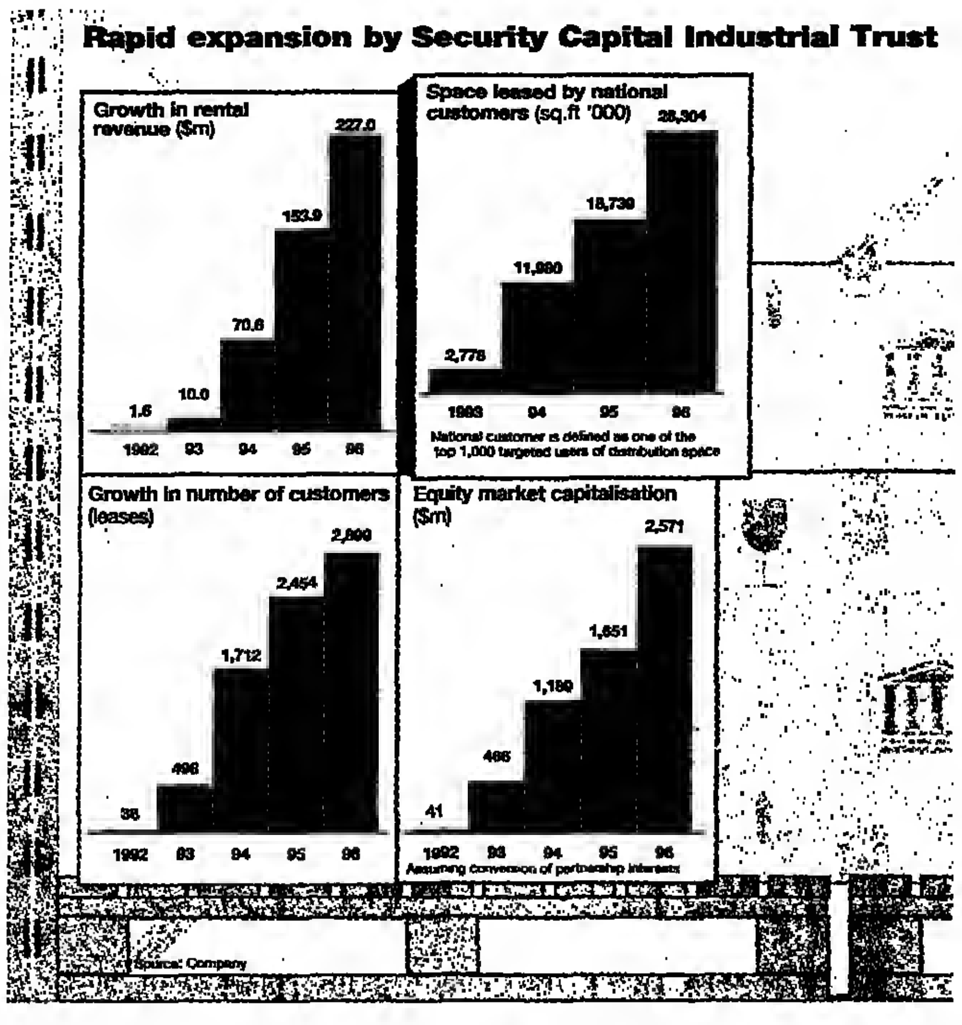
SCI only entered the cold storage industry earlier this year when it acquired the US operations of Christian Salvesen for $122.3m.

"We make sure that trucks go out with a full load, not a partial load," said Dane Brooksher, co-chairman and chief operating officer of SCI. "We move product efficiently, on time and at the lowest possible cost," he said.

In Europe, SCI hopes to be able to offer a range of sites and services to its multinational customers, many of whom are rationalising their distribution operations in order to take advantage of the European Union.

"We are in the third-party logistics business," Mr Brooksher said. "We operate these facilities as opposed to leasing them out."

Rapid expansion by Security Capital Industrial Trust



Source: Company

Guinness and GrandMet cleared in US for merger

By David Blackwell in London

The £23bn ($37.9bn) merger of Grand Metropolitan and Guinness cleared the final hurdle yesterday as the US competition authorities announced conditional approval.

Diageo – as the new group will be called – will have to sell Dewar's, the best-selling Scotch whisky brand in the US, and its Bombay Sapphire premium gin.

George Bull and Tony Greener, chairmen of GrandMat and Guinness respectively, said they regretted the loss of tha two brands. But without the divestments the groups would not have been able to go ahead with the merger in the US. Analysts detected no surprises in the long-awaited ruling by the Federal Trade Commission.

Shares in Guinness and GrandMet will be delisted tonight. The merger, announced on May 12, involves a one-for-one share swap, and Diageo shares will start trading tomorrow.

Yesterday's clearance follows October's ruling by European Union competition regulators who ordered the sale of Dewar's and Ainslie's Scotch in Europe and withdrawal from distribution of gin, vodka and white rum in some European countries.

Dewar's is eighth in the world Scotch market, but is market leader in the US where last year it accounted for 1.5m cases out of the total 9.4m sold. Disposal of the brand will leave Diageo with the second, third and fifth best-selling Scotch brands in the US – J&B, Johnny Walker Red, and Scoresby.

The FTC has given the group six months to make the disposals, which will be handled by Credit Suisse First Boston. Front-runners among potential buyers for Dewar's are likely to be Allied Domecq of the UK and Seagram of Canada, which will be the next largest drinks companies after Diageo.

Analysts suggested that Dewar's, which contributes ebout £60m a year to Guinness profits, could fetch hatween £600m and £700m.

Lex, Page 14
Raw enterprise, Page 21

Swiss Re plans $697m share buy-back via dual pricing

By William Hall in Zurich

Swiss Re, the world's second biggest reinsurance company, yesterday launched Switzerland's biggest share buy-back with e plan to spend SFr1bn ($697m) on repurchasing up to 3 per cent of its equity.

Since recent corporate restructurings, several Swiss companies have been building np large cash piles. But efforts to return money to shareholders through share buy-backs have until now been largely thwarted by Swiss tax rules.

A few companies, such as Ems Chemie, a Swiss chemical company, and Société Générale de Surveillance, a Geneva-based inspection company, have undertaken share buy-back programmes, but they have proved cumbersome to operate.

The main problem is that Swiss law treats buy-backs as partial liquidations, liable to withholding tax.

Big institutional shareholders can offset the withholding tax, but small shareholders are oftan penalised, and Swiss companies have been trying to find a way in which all shareholders can be treated equally.

Swiss Re believes it has found a way of getting around the problem by establishing a second price for its shares, especially for the purpose of the share buy-back.

Swiss Re will publish a bid price for the shares it wishes to repurchase, separate from the market quotation in the company's stock. It is expected that the difference between the two prices will be no more than 1 per cent. This allows all shareholders to sell directly to the company, thus svoiding withholding tax.

Swiss Re will publish its secondary share price on the Swiss stock exchange from December 17 until the end of the buy-back.

Swiss Re has for some time been seen as a leading candidate to buy back its shares. The company's shares jumped sharply after the initial announcement bnt closed SFr28 lower at SFr2,541.

Sale of IPB stake to Nomura in doubt

By Robert Anderson in Prague

The sale of the Czech government's stake in Investiční a Postovní Banka (IPB), the country's third largest bank, to Nomura, the Japanese investment bank, appeared to be in doubt yesterday after the two sides disagreed over the bank's valuation.

Ivan Pilip, the finance minister, met Nomura officials to discuss the outcome of separate audits by the two sides but no agreement was reached. The finance ministry said Nomura had "confirmed its continuing interest" in the troubled bank and that both parties "confirmed their readiness to have future negotiations, which will occur as soon as possible".

The government agreed in July to sell its 36 per cent stake in IPB to Nomura for between Kč2bn and Kč6bn ($57.3m-$172m), depending on audits by Price Waterhouse for Nomura and Ernst & Young for the government. A third auditor, Deloitte & Touche, was employed to reconcile the methodology of the other auditors investigating the bank's accounts.

The completion of the audits has been repeatedly delayed. It is understood that the Price Waterhouse audit shows that the bank is worth less than the minimum of Kč2bn set by the government and that Nomura is pressing for the bank to be sold for only a token amount.

The government is believed to be arguing that, regardless of the quality of the bank's assets, the value of the goodwill of the bank – which has an extensive retail network and big stakes in industry – is sizeable. However, analysts are unconvinced. Martin Nejedly of Wood & Co brokers said: "Goodwill should be reflected in the current share price and its profit-making and this isn't the case." He said the true state of the bank is shown by the fact that its book value is Kč18bn but its market capitalisation is only Kč12.4bn.

IPB made a net profit of Kč451m in the half-year to June 30 but the bank has been struggling with a backlog of non-performing loans made in the early 1990s during the transformation from communism. Non-performing loans represent 19.6 per cent of its total loans and provisioning stands at Kč9.5bn.

Coopers and Lybrand were sacked as the bank's auditors in March in a dispute over the provisioning for these loans. Writing off these loans will eat into the bank's capital adequacy, which already hovers around 8 per cent, the minimum, under Czech central bank rules.

Nomura, which already owns around 10 per cent of IPB, had been expected to inject another Kč6bn into the bank to boost its capital and a shareholders meeting is due to consider a capital increase next month. Mr Roman Ceska, the head of the state privatisation agency, has warned that a suspension of the sale would jeopardise this.

Watchdog blocks Czech brewing deal

By Robert Anderson in Prague

The Czech competition office has blocked a merger between the country's two biggest brewers after Bass, the UK brewer, complained that the link-up would damage competition.

The competition office said the merger of Plzensky Prazdroj, the market leader, and Radegast, 57 per cent owned by Nomura, the Japanese bank, would "achieve such an economically strong position that it will allow them to prevent the continuation of efficient competition".

Investiční a Postovní Banka (IPB), which owns 66 per cent of Plzensky Prazdroj and which Nomura is negotiating to buy, said it would appeal. A bank official said the 40 per cent market share which the merger would create was common in other European countries and that in its appeal it would present a much deeper analysis of the benefits to Czech beer exports. The competition office will have three months to give a final, binding judgment.

Bass, which owns 55 per cent of Prague Breweries, the country's third biggest, and has a 33.4 per cent stake in Radegast, said it was delighted by the decision. Graham Staley, head of Bass in the Czech Republic, said: "The ruling sends an important, clear message that the Czech authorities are committed to open competition."

In an interview earlier this year, he said consolidation of the industry was inevitable, "but 41 per cent (the merged group's estimated market share) and 14 per cent (Bass's share) is not competition".

Mr Staley said his company was prepared to renew its private offer to IPB of Kč6,500 a share for the rest of Radegast. Bass, which wants to merge Radegast with Prague Breweries, was negotiating with IPB for the sale of its stake when Nomura agreed to buy the bank in July. The IPB stake was subsequently sold to IMP, a Dutch trust controlled by Nomura, which has made a mandatory offer of Kč4,600 a share for the remaining shares.

Six Czech brewing groups now control 70 per cent of output, but the domestic market is stagnant.

Competition is squeezing margins in the increasingly consolidated Czech brewing industry

Skanska faces pressure to sell non-core holdings

By Tim Burt in Stockholm

The two largest institutional shareholders in Skanska, Sweden's leading construction group, are planning to persuade the company to sell its non-core investment portfolio – worth an estimated SKr2.3bn ($296m).

Custos and Industrivärden, the investment companies which control almost 60 per cent of Skanska's voting rights, expect to push through the disposal of Skanska's holdings in companies such as SKF, the ball bearings manufacturer, and engineering group Sandvik. Skanska has 20 per cent of SKF's voting rights and 8.7 per cent of its share capital.

It signalled the divestment of its non-core shareholdings earlier this year, when it sold most of its 25 per cent stake in Sandvik in a SKr10bn offering.

Its remaining Sandvik holding is thought to be worth about SKr700m.

Sven Hagströmer, a Custos director and board member at Skanska, predicted most of the investment portfolio would be sold within the next 12 months – adding the move would enable Skanska to develop its core construction business. "The company needs to expand by acquisition; proceeds from share disposals could help fund that expansion."

He said Skanska, which this year acquired a 7.6 per cent stake in UK rival Costain, expected to exercise its options over 40 per cent of the London-quoted construction group before the end of the decade.

Such a move would trigger an outright bid for Costain.

"The decision to buy into Costain is a sign of things to come," said Mr Hagströmer.

Other Skanska investors said they would urge the company to cut its portfolio of managed properties, which have a rental value of SKr2.4bn, as part of any further restructuring.

The overhaul planned at Skanska follows a more aggressive approach by Scandinavian investment companies towards under-performing assets.

Mats Qviberg, another director of Custos and joint founder with Mr Hagströmer of the Oresund investment group, said: "We represent change because institutional shareholders have not called the shots before. There is a new culture in Swedan of shareholder activism."

Bouygues shares fall 7% after deal with Bolloré

By David Owen in Paris

Shares of Bouygues fell sharply yesterday after the French construction and telecommunications group disclosed details of an agreement with Vincent Bolloré, the French financier, that were interpreted as reducing the prospects of a takeover bid for the company.

The shares closed down FFr48, or 6.7 per cent, at FFr665 on the Paris stock market, against a marginal advance for the benchmark CAC 40 index.

Groupe Vincent Bolloré, Mr Bolloré's holding company, and SCDM, a holding group owned by Martin and Olivier Bouygues, have agreed to form a joint company grouping their combined stakes for at least five years.

The announcement said the Bolloré group had taken its holding to nearly 10 per cent in Bouygues, while SCDM owned close to 15 per cent.

Yesterday's developments came less than a week after tha Bolloré group paid FFr1.2bn ($202m) for 8.7 per cent of Bouygues, making it the largest investor after the founding family.

Bouygues said the deal confirmed that Mr Bolloré's purchase of its shares was a long-term financial investment reflecting confidence in the company's management and in the growth potential of its activities.

The move was welcomed by analysts. Jean-Christophe Lefèvre-Moulenq, European construction and cement analyst with Cholet Dupont in Paris, said: "Until now it [Bouygues] was able to rule alone with the help of sleeping partners. Now it has a much more demanding shareholder.

"I think Mr Bolloré – and perhaps other shareholders – will oblige management to realise better shareholder value and perhaps to sell some activities. Bouygues has seven activities, which is too many."

Under the accord, SCDM and Bolloré have a right of first refusal on the other party's shares for three years if the shareholder pact expires after the minimum five-year period.

Bouygues said two directors chosen by Bolloré would be proposed to its management board at its next meeting. A third would be proposed by the annual meeting.

Japanese groups in DVD link

By Michiyo Nakamoto in Tokyo

Matsushita, Toshiba and Culture Convenience Club, Japan'a largest video and CD rental group, have agreed on a co-operative deal to stimulate domestic sales of digital video discs (DVD), the audio and video recording medium flagged as the hottest product in the consumer electronics industry.

Under the agreement, CCC will start renting DVD software and players in its stores, while Matsushita and Toshiba will each take a 19.9 per cent stake in Culture Publishers, a CCC subsidiary which owns publishing rights for DVD software titles. The electronics companies will pay Y296.25m ($2.27m) each to raise the paid-np capital of Culture Publishers to Y600m.

CCC will begin renting DVD titles at two Tokyo stores from Friday and plans to extend rentals to its nationwide chain naxt spring. The titles initially offered will be mainly film titles released by Warner Home Video. The group hopes to have 200 to 300 titles available by spring. Talks are also under way with MGM, United Artists, and Orion.

The decision by Matsushita and Toshiba to link with CCC reflects the slower-than-expected growth of DVD in Japan. The rental markat, which was instrumental in spreading video and CD players, is expectad to encourage more Japanese to try DVD.

Sales of DVD players in Japan are expected to reach between 300,000 and 400,000 in the year to March, far below the 600,000-650,000 forecast for the US this year and similar to sales in other parts of Asia, Toshiba said.

Europe, where the launch of DVD has been delayed, is expected to see sales of 50,000-100,000 this year.

Worldwide sales are likely to come to between 1.2m and 1.5m units.

"DVD is durable and compact and is particularly well-suited to the rental business," said Kazuaki Terao, presideot of CCC.

A Russian juggernaut in pursuit of size

The corporate moguls spawned by the collapse of Soviet communism are not retiring men and Mikhail Khodarkovsky, head of Menatep, is no exception.

For him, the recent acquisition by Yukos, part of the Menatep group, of Eastern Oil, a mid-sized Russian oil company privatised earlier this month, is part of his bid to build up one of the world's biggest oil companies.

"In oil we want to be number one," the 34-year-old banker says. "Okay, number two then," ha concedes after being questioned about the realism of such an ambition.

Within a decade, Mr Khodarkovsky unblushingly predicts, his companies will be prodncing 100m tonnes of oil a year, more than double current levels, including Yukos, a big Russian oil producer, Eastern Menatep will now account for about 15 per cent of Russia's total production.

He says his group intends to "buy several more Russian oil companies" with plans to participate in the privatisations of Rosneft, Onaco and Slavneft. Tha spending spree, he says, is part of Menatep'a strategy to shed the diverse Russian industrial holdings it has acquired over the past five years and focus on the oil sector.

Mr Khodarkovsky's already acquisitive appetite has been further whetted by his success in raising $1bn in western financing in the first week of December, a feat made all the more remarkable by the nervous state of Russia's domestic markets.

In tight market conditions, his bankers' speed allowed Mr Khodarkovsky to make the required $800m payment for 45 per cent of Eastern Oil. Tha experience appears to have convinced him he will find western capital equally forthcoming when he goes shopping for more Russian oil assets in next year's auctions: "We have understood that for a good deal we can gather money very fast."

But while the successful fund raising suggests growing international confidence in the Yukos/Menatap combination, several analysts have voiced scepticism about tha industrial logic behind the acquisition of Eastern Oil.

It is the absence of any obvious commercial synergy between the two companies that suggests Menatap's strategic priority is to increase the size of its oil asset base, rather than to focus on improving its quality or performance in terms of profitability.

> **Many analysts believe the acquisition was motivated by a realisation on the part of Menatep's management that this year may be the last time it can secure additional substantial reserves at reasonable cost**

"It was interesting to note that Menatap said it wanted to create one of the biggest oil companies in the world, not one of the most profitable," saya Stephan O'Sullivan at MC Securities in London.

Many analysts believe the acquisition was motivated by a realisation on the part of Menatap's managemeot that this year may be the last time it can secure additional substantial reserves at a reasonable cost.

"To be honest, I do not see huge synergies between the two companies," says Georgi Bedinelshvili, Russian oil analyst at Salomon Brothers. "But I think it was a good deal for Yukos. They got the assets at a 30 to 35 per cent discount, they increased their reserves."

But other analysts wonder whether Yukos' management will be up to the task of smoothly integrating Eastern into the bigger group. Yukos, they note, is still struggling to integrate its own production subsidiaries, while its record of managing its asset base is patchy.

"Its historic asset management is the worst in the sector," says another Russian oil industry analyst. "That doesn't bode well for the integration of Eastern."

Eastern, however, has generally impressed western oil experts. The company took early steps to bring in foreign advisers and technology to improve its performance, and one question mark over the acquisition is the attitude of Eastern's management to the deal.

Bot such detailed concerns may fade into tha background in the wider strategic scramble now taking place in Russia's oil industry. Mr O'Sullivan notes there are probably more western oil companies trying to secure a long-term alliance with a Russian company than there are are potential Russian partners.

Yukos' previous relations with foreign companies has not been particularly good. A deal with Amoco of the US to develop the giant Priobskoye field foundered on a dispute over financing. But Yukos' asset base, even without the Eastern acquisition, has attracted the interest of foreign oil companies, with US groups such as Exxon, Texaco and Mobil most often mentioned as potential partners.

Mr Khodarkovsky, who has just completed a tour of the US and western Europe, admits his group is sbopping for more than Russian oil assets. He is in the market for a strategic alliance with a large western oil group.

Chrystia Freeland and Robert Corzine

INTERNATIONAL NEWS DIGEST

Remand sought by Trustor prosecutor

Sweden's state prosecutor yesterday requested the remand in absentia of Joachim Posener, the 33-year-old Swede suspected of masterminding an alleged SKr630m ($79.8m) fraud at Trustor, the Swedish investment company. Mr Posener, a convicted fraudster, is believed by prosecutors to be behind the alleged asset stripping at Trustor which occurred shortly after the company was acquired by Lord Moyne, of the UK Guinness drinks family, in June.

A Stockholm court will decide today whether to remand Mr Posener. A court order would enable prosecutors to issue an international arrest warrant. Mr Posener's whereabouts are unknown but one associate is in custody in Sweden and another is on bail. Bo Skarinder, the Swedish prosecutor heading the case, said he had evidence that Lord Moyne used Trustor money to pay for his SKr240m purchase of a 51.8 per cent voting stake in June.

Buying a company with its own money is a criminal offence under Swedish and UK law, carrying a maximum prison sentence of six to seven years. However, no decision has been taken on possible charges against Lord Moyne or Lindsay Smallbone, his business associate and Trustor's former managing director.
Greg McIvor, Stockholm

■ NORDBANKEN HOLDINGS

Merrill Lynch exercises option

Merrill Lynch, the US investment bank, has exercised an option to acquire 28.5m shares in Nordbanken Holding, which owns the Swedish bank Nordbanken, for SKr1.1bn ($141m) from the Swedish government. The purchase is linked to the government's SKr7.1bn public offering this month of 189.5m Nordbanken Holding shares in which Merrill Lynch was joint global co-ordinator. It reduces the state's stake to 42.5 per cent in Nordbanken Holding and to 25.5 per cent in MeritaNordbanken, the group created by the recent merger between Nordbanken and Finland's Merita.
Greg McIvor

■ PHARMACEUTICALS

Teva in link with Biovail

Teva, Israel's largest pharmaceuticals company, and Biovail Corporation International, the Canadian-based pharmaceuticals group, yesterday formed an exclusive US marketing and product development agreement, a move which will strengthen Teva's presence in the US. Teva accounts for 8 per cent of the US generic drug sector.

Teva will pay $34.5m to Biovail in a deal which will also give it access to Biovail's controlled release products that include generic versions of cardiovascular products. Its combined US annual sales exceed $2.3bn.

Eli Hurvitz, president and chief executive office of Teva, said the agreement would improve the company's product portfolio at a time when sales in the US accounts for more than half of Teva's total sales which last year amounted to $740m and will exceed $1.1bn this year.
Judy Dempsey, Jerusalem

■ THYSSEN

Chief faces charge over funds

Public prosecutors in Berlin yesterday announced charges against Dieter Vogel, chief executive of Thyssen, the German engineering group, and two other managers for allegedly mishandling DM37.8m ($21.20m) of funds in connection with the group's acquisition some years ago of Metallurgiehandel, a former east German trading group.

The charges, which were rejected as "legally and factually unfounded" by Thyssen, relate to monies designated for training personnel. The prosecutors said they were shelving all other investigations of Mr Vogel who has been on bail since the prosecutors issued a warrant for his arrest last year.

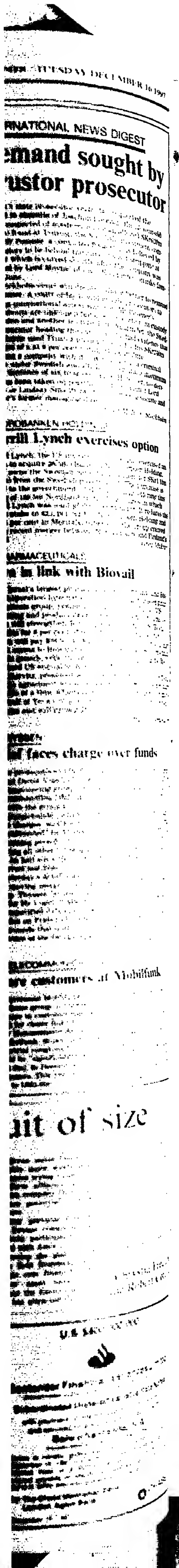
Yesterday's development had no visible impact on the slow moving merger negotiations between Thyssen and Krupp. Thyssen issued a statement reaffirming its support for Mr Vogel. It also announced the postponement to an unspecified date of a supervisory board meeting that was due on Friday to consider the merger negotiations on the grounds that questions relating to the taxation and valuation of the two groups still needed to be resolved.
Peter Norman, Bonn

■ TELECOMMUNICATIONS

More customers at Mobilfunk

Mannesmann Mobilfunk, Germany's largest digital mobile telephone group, yesterday announced a 52 per cent increase in customer numbers during 1997 and unveiled plans for closer links with its fixed-network sister company Mannesmann Arcor.

Mobilfunk, 65 per cent owned by the Mannesmann industrial conglomerate, said 1997's after-tax results would be "significantly better" than last year's DM646m ($362.9m). In December, D2, its mobile network, had 3.5m customers. This year's turnover is expected to rise 33 per cent to DM5.6bn.
Ralph Atkins, Bonn



BIGGEST

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COMPANIES AND FINANCE: ASIA-PACIFIC

Asian crisis will force cost cuts at Cathay

By John Ridding in Hong Kong

Cathay Pacific, Hong Kong's de facto flag carrier, has warned that the regional economic crisis and the sharp fall in tourist traffic to the territory has had a serious impact on sales and will force cost cuts.

In the latest weekly corporate newsletter, David Turnbull, managing director, blamed the "dreadful state" of regional economies for depressed revenues.

"Revenue shortfall from budget so far this year has wiped out an entire year's growth," he said.

Mr Turnbull's comments added to the gloom surrounding the carrier's prospects, knocking 9 per cent off the company's shares. At yesterday's closing price of HK$6.05, the shares are more than 60 per cent below their year-high of HK$16.35.

Cathay's warning underlines the severity of the downturn facing Hong Kong's tourist industry, which has seen Japanese tourist traffic fall by as much as 50 per cent in recent months.

Tourism from other destinations and business travel has also been hit by regional financial crises and economic downturn.

Hong Kong's receipts from tourism fell 9.2 per cent to HK$55.4bn (US$7.15bn) in the first nine months of the year, compared with the same period last year.

Cathay saw first-half profits fall 35 per cent to HK$1.07bn.

While Mr Turnbull said Cathay's balance sheet remained strong, he signalled the airline's structure would have to be streamlined. "We have to change. Over the years we have become quite bureaucratic. We need to speed things up," he said.

The airline said orders for 10 aircraft in 1997 and 1998, including the new Boeing 777-300, would proceed as planned, but options for about 25 aircraft would be reviewed.

Mr Turnbull said: "We will order more aircraft when the time is right, when we have put our house in order, when we have got our costs down and when we have seen the extent of the downturn."

Cathay said, however, that it was too early to discuss possible job cuts.

The airline has already launched incentive schemes to attract passengers, including a two-for-one ticket promotion which is expected to bring 80,000 visitors to Hong Kong in the first six weeks of next year. Mr Turnbull said the airline would also increase the level of outsourcing of services to cut costs.

Next year's move to the territory's new Chek Lap Kok airport would help rationalise administrative functions and physical resources. The move is estimated to cost Cathay about US$1bn, including a new headquarters, training and catering facilities.

Cathay Pacific's warning underlines the severity of the downturn facing Hong Kong's tourist industry Popperfoto/Reuters

Peregrine secures second investor

By Louise Lucas in Hong Kong

Peregrine, the Hong Kong investment bank, attracted a second new shareholder yesterday within a month when a subsidiary of First Chicago NBD, the US bank holding company, agreed to pay US$25m for a 2.6 per cent stake.

In November Zurich Group, the Swiss financial services company, bought a 24 per cent holding for US$200m.

The latest cash raising from First Chicago International Finance underlines Peregrine's need for liquidity at a time when the Asian financial markets are in turmoil.

Further sales, raising about US$75m, are due.

First Chicago International Finance will subscribe for convertible preference shares. The same structure will be used for the sale of stakes to up to three more investors.

Peregrine International Holdings, the privately held parent, will see its stake diluted from 20.3 to below 20 per cent after the deal. It was 26.6 per cent before Zurich Group came in. Shareholders' funds stand at about HK$2.5bn (US$323m), down from about HK$3bn at the start of the year.

Last week Peregrine admitted to losses of HK$248.9m in the four months to October 31. Post-interim figures, released to allay investor fears of financial difficulties, showed that while the group reported net profits of HK$635.6m for the six months to the end of June, this had fallen to HK$386.7m for the 10 months to October 31.

Philip Tose, chairman, said next year would continue to be difficult for Asia, although he pointed to a strong list of mandates for equity issues within Hong Kong and China.

Cash comes before chemistry

Successful Thai family business may have to take on in-laws it doesn't want

Few Asian families have hoisted their businesses as high in a couple of decades as has Thailand's Prachai Leophairatana, who reputedly sees himself as the region's petrochemicals tsar. But if his Thai Petrochemical Industries is to stay at the top, the cost may be an awkward and undesired partnership with foreign investors.

The economic crisis that has engulfed the region since Thailand allowed the baht to tumble on July 2 caught Mr Prachai with the paint barely dry on southeast Asia's biggest petrochemicals complex.

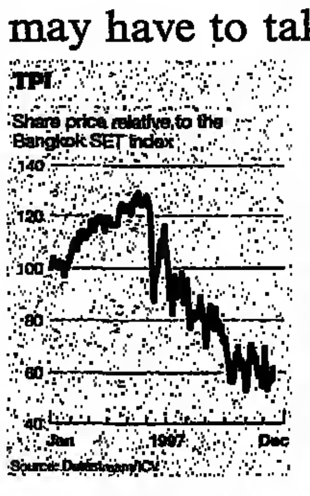
The jump in the cost of foreign currency loans has devastated cash flow. Insiders talk of monthly cash flow checks, attempts at barter trade and salary cuts.

TPI is finding that the local economy has stalled at a time of serious concern about the oversupply of ethylene and polymers. Mr Prachai suspended repayments on TPI's $3.8bn debts, and those of its sister company, the cement-maker TPI Polene, in late September.

There are more than 120 creditors. Bangkok Bank, a long-time associate, is understood to have 5 per cent of its loan book marked TPI.

Few observers think there is much wrong with the basic petrochemicals idea: big, integrated plants cut costs and, by cutting out the middle men between crude oil supplier and plastic dashboard maker, lock out the high price volatility of intermediate oil products.

But the family's forays into cement, steel and power production, taken together, may be harder to justify.



Projects worth some $2bn have been cancelled since the baht flotation, including a second ethylene cracker and fourth power and cement plants.

A 1979 survey of Thai-based businesses found the worthy rice trading and textiles group Hong Yiah Seng ranked 44th on asset values of about Bt1.5bn. But, unlike the other big rice traders, Hong Yiah Seng's owners moved not into banking and property but into manufacturing. TPI was set up in 1978 – years after the family had first made the switch from importing resins and plastics to making them. Its natural head was Mr Prachai: one of three brothers with top notch foreign engineering degrees and high expectations.

Thai governments encouraged TPI to help exploit the offshore oil and gas discovered in the Gulf of Thailand in the 1970s and bankers eagerly offered relatively cheap foreign loans.

However, tension broke to the surface three years ago when TPI lost heavily after a potentially profitable currency swap arrangement went wrong.

Threats to sue the Union Bank of Switzerland for misleading advice were eventually dropped and a director and substantial shareholder, Mungkorn Kriengwatana, left quietly soon afterwards.

Lack of cash may be hampering TPI's efforts to export its way out of trouble while its advisers, Chase Manhattan, talk to creditors. Few observers think the family will retain its near 60 per cent control of TPI and its integrated plant without selling something.

But Mr Prachai's boldest gamble, selling off TPI Polene, a listed cement maker, could yet save the group and ward off the prospect of having to live with a foreign partner.

William Barnes

Prius orders exceed targets

By Michiyo Nakamoto in Tokyo

Advance orders for Toyota's hybrid car, which boasts cuts in emissions, are running at twice the monthly target, according to the Japanese carmaker.

The figures suggest the Prius, which uses petrol and batteries, has struck a chord with environmentally conscious consumers even though it is dearer than conventional cars. Some 2,000 orders have been lodged, compared with a monthly target of 1,000, with 60 per cent of orders coming from individuals.

The strong level of demand came in spite of a delay in the launch of the Prius which has meant most buyers have not been able to see the car or test drive it.

The price of Y2.15m ($16,500) is somewhat higher than the Y1.8m for a conventional car of the same category, but Toyota will make a loss on each car sold.

However, the Prius is seen to be a marketing coup which has put Toyota in the forefront of consumers' perceptions about environmentally friendly carmakers.

"Toyota has wrapped itself as the environment leader and has defined the market," said Ed Brogan, analyst at Salomon Smith Barney in Tokyo.

Other carmakers, such as Nissan, which plans to commercialise a hybrid in the second half of next year, and Honda, which hopes to unveil its hybrid by the next car show in two years' time, must follow Toyota's lead on pricing, Mr Brogan said.

This announcement appears as a matter of record only.

November 15, 1997

A$14,326,261,005

Telstra

Telstra Corporation Limited

(A.C.N. 051 775 556)

4,288,866,733 Ordinary Shares

in the form of Instalment Receipts and Interim American Depositary Shares

Each American Depositary Share represents the right to receive 20 Ordinary Shares. Shares and ADSs offered in the global offering are to be paid for in two instalments. The First Instalment of A$2.00 and US$27.912 is payable on November 25, 1997 and the Final Instalment is payable on November 17, 1998 of A$1.40 and US$19.5384 (the amount payable in U.S. dollars will depend upon the prevailing A$ to US$ exchange rate at the time the Final Instalment is due).

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AUSTRALIA **Office of Asset Sales**

US Bancorp buys brokerage for $730m

By John Authers in New York

US Bancorp, the 14th largest US commercial bank, is buying Piper Jaffray, a large retail brokerage based in Minneapolis, in a stock swap valued at $730m.

The deal continues the marked trend for large commercial banks to buy local retail brokerages, following the liberalisation of regulations by the Federal Reserve this year.

It is the second significant deal of the year for US Bancorp, formed by First Bank System of Minnesota's $8.7bn acquisition of Oregon-based US Bancorp in March.

Like other banks, it is attempting to build a national franchise, and has also succeeded in persuading Wall Street it will remain disciplined in the prices it pays for acquisitions.

Dealers reacted positively to the deal. Piper Jaffray's shares jumped more than 20 per cent in morning trading, gaining $6½ at $36¼, while US Bancorp's shares also advanced slightly, gaining $¾ to $114.

The acquisition differs from other takeovers of regional brokerages in that Piper Jaffray has a large mutual fund business, giving the bank access to a big customer base of wealthy individuals.

This means US Bancorp will benefit from relatively stable fee income from added fund management as well as the more volatile earnings produced by investment banking activities such as equity and debt underwriting, and trading.

The greatest impact on US Bancorp will cover its retail business, with its branch network in 17 states in the north and west closely overlapping Piper Jaffray's 88 retail sales offices in 19 states. John Grundhofer, US Bancorp chief executive, said there was "no better fit than Piper Jaffray and US Bancorp".

Derek Sword, analyst at Keefe, Bruyette & Woods in New York, said: "This is a very sensible deal. The two companies fit strategically, and Piper Jaffray adds up $13bn in assets under management. It's sensibly priced at a little more than four times book value."

Several deals this year have taken advantage of the Federal Reserve's decision in March to lift the proportion of profits which commercial banks could raise from securities businesses from 10 to 25 per cent.

Large US regional banks that have already bought retail brokerages include BankAmerica, which bought Robertson Stephens, of San Francisco, for $500m; NationsBank, which bought Montgomery Securities of California for $1.2bn; and Fleet Financial, which bought Quick & Reilly for $1.6bn.

H&Q to expand European presence

By William Lewis in New York

Hambrecht & Quist, the San Francisco-based investment bank that has been holding on-off acquisition talks with Merrill Lynch, is to attempt to replicate in Europe its success in US technology markets.

H&Q will announce today that it has appointed James Macmillan-Scott, formerly head of Deutsche Morgan Grenfell's global ADR group, to become chief executive of H&Q Euromarkets, its Paris-based affiliate.

It follows H&Q's move this year to take control of its joint venture with Credit Nationale, the French financial institution, by buying back the 50 per cent of the venture it did not own.

H&Q believes European technology markets are poised to undergo the same sort of growth experienced in the US in recent years.

"We intend to reproduce in Europe the essential H&Q link between issuer and investor in our core sectors – technology, healthcare, information services and branded consumer," said David Case, H&Q's president and chief executive.

H&Q, while small in comparison with global investment banks such as Merrill Lynch, has become one of the most successful west coast technology investment bank boutiques.

In the US, it ranks in the top 15 technology investment banks in stock underwriting and merger and acquisition advice.

This month talks between H&Q and Merrill Lynch were said by sources to have reached an advanced stage. However, in recent days the talks are said to have hit an impasse, with Merrill apparently expressing concern about having to pay more than $1bn to buy H&Q.

Mr Macmillan-Scott said he intends to build on H&Q's small European operations by recruiting new research and banking staff. Alongside its small Paris-based staff, H&Q has a London operation specialising in selling US equity to European investors.

Bethlehem pays $400m for Lukens

By Richard Waters in New York

Bethlehem Steel, the second largest US steelmaker, yesterday agreed to pay $400m in cash and stock for rival Lukens, marking the biggest acquisition in the country's steel industry in recent years.

Lukens, a specialist maker of steel plate and stainless steel products, has been hit by the surge in stainless steel imports, which has depressed prices in the US. Bethlehem said it would sell Lukens' stainless steel operations after the acquisition.

The agreement, which will also include the assumption of $250m of Lukens' debt, reflects the pressure on traditional integrated steel makers such as Bethlehem to cut costs and close inefficient plants in the face of mounting competition from both foreign producers and new "mini-mill" companies in the US.

Bethlehem said it planned to close one of its two steel plate mills and one of the four operated by Lukens after the acquisition.

The closures, which would lead to a restructuring charge of $50m, would make it possible to reduce costs significantly at the remaining mills, Bethlehem said.

It also claimed that, by combining operations, it would have the industry's broadest range of steel plate products, used in industries such as shipbuilding, road construction and mining.

Yesterday's announcement was the first concrete sign of a consolidation in the steel industry anticipated on Wall Street for some time. This year, Inland Steel and US Steel said that they had discussed a merger, prompting speculation that other companies would also look to mergers as a way to make themselves more competitive.

A jump in US industrial production and construction has contributed to a partial rebound in steel prices this year.

However, a slowdown in demand and an increase in production by new, low-cost mini-mill companies is widely expected to put pressure on prices again next year, forcing higher-cost producers such as Bethlehem to make themselves more competitive.

The acquisition values Lukens at $25 a share, with 62 per cent of the purchase price in cash, with the rest in Bethlehem stock.

Wall Street celebrated the deal by pushing Lukens' shares up by $7⅛, or 42 per cent, yesterday morning to $24¼, while Bethlehem rose $⅛, to $8⅛.

However, shares in Bethlehem, whose stock was removed from the Dow Jones Industrial Average this year, are still about 50 per cent below their level in the summer.

Stealing a march: Bethlehem says buy gives it largest range of steel plate products in the US

Endesa signs scaled down Enersis deal

By Tom Burns in Madrid

Endesa, the Spanish power group, has settled for a scaled-back strategic alliance to invest in Latin American utilities with Enersis, the Chilean electricity group whose local shareholders rejected an ambitious joint venture between the two.

Under a compromise agreement, Enersis, which is 32 per cent-owned by Endesa, will raise $600m in a rights issue to finance acquisitions instead of an originally planned $1bn. The two power groups will decide their investment policies separately rather than as partners.

Alfredo Llorente, the chief executive of Endesa's international operations and one of three Endesa directors on Enersis' seven-member board, said yesterday that the "spirit of the alliance" had been maintained by the new agreement.

Enersis' board ruled at the end of last week that the two companies would not compete against each other in forthcoming privatisations, that they would invest jointly where possible and would co-operate in capital raising projects on a case-by-case basis.

Mr Llorente said the $600m rights issue represented a "sufficient" sum for a "reasonable" investment drive during 1998.

The issue is likely to finance the purchase of electricity generation and distribution assets in Brazil where the start-up of a wide-ranging privatisation programme in the São Paulo area is expected early next year.

Endesa believes that the more modest collaboration envisaged by the agreement will in time cement the close co-operation it had hoped for when it acquired its stake in Enersis in August.

The acquisition proved highly controversial with Chilean pension funds, known as AFPs, which collectively own 33 per cent of Enersis. It led to the dismissal of José Yuraszeck, Enersis founder and general manager.

Fearing that Mr Yuraszeck had sold out Enersis to the Spanish power group, the AFPs blocked the creation of a joint venture which was to have been called Endesis and run, under a lucrative management contract, by Mr Yuraszeck and his associates.

Elan acquires Sano in $375m swap

By John Murray Brown in Dublin

Elan Corporation, the international pharmaceuticals company based in Ireland, has acquired Sano Corporation of the US for $375m. The deal boosts Elan's range of drug delivery systems, which improve the efficiency of dosages and reduce side effects.

Each Sano share is being exchanged for 0.65 Elan American Depositary Securities. The company say the deal will enhance earnings in 1998.

Sano has no marketed products but offers Elan a products pipeline that includes a variety of drug delivery systems, such as an improved, transparent nicotine patch. Elan already has a nicotine patch product which is sold over the counter in Ireland. Sano is also developing a drug to treat symptoms of anxiety. This is marketed as an oral product by Bristol Myers Squibb and is worth $430m a year in tablet form sales. Another of Sano's drugs, worth about $500m a year, is used to treat attention disorders among adolescents. Trials on all three products are expected to be completed in 1998.

Donal Geaney, Elan chairman and chief executive officer, said: "The transaction will broaden our technology platform, extend our client base and add a range of important later-stage development products to our pipeline."

The all-share deal represents $35.50 a share. The price on Friday was $34. John Groom, the chief operating officer, said this level of premium was the norm for the drugs business.

"In this sector, when you're looking at a development company, the equation is not the size of their losses, it's the size of their losses relative to their cash balance – the rate of burn, as it is generally known," said Mr Geaney.

Goldman Sachs, the US bank, advised Elan. Vector Securities advised Sano.

Sano will operate as a business unit of Elan Pharmaceutical Technologies, Elan's drug delivery division.

Elan, which is 85 per cent owned by US institutions, reported a 63 per cent increase in pre-tax profits to $134m for the 9 months to September.

AMERICAS NEWS DIGEST

Japan-led group quits Sidor bid

A Japanese-led consortium has withdrawn from bidding for a 70 per cent controlling stake in Sidor, the Venezuelan steel company, citing "fall-out" from the Asian financial crisis. The consortium contained Kobe Steel, Nissho Iwai and Tomen Corporations, all of Japan. But the other two companies in the consortium, Mexico's Siderúrgica Lazaro Cardenas Las Truchas (Sicartsa) of Mexico and the Hicks, Muse, Tate and Furst Latin American Fund of the US, said they "are still interested in investing in Venezuela and particularly in the acquisition of Sidor through suitable arrangements".

Four other consortia remain interested in bidding for the 3.7m tonne plant, valued at $1.54bn. Excluding Sidor's debt of $642m, the government expects to net $700m from the sale.

The base price was deemed "on the low end" by industry analysts and Venezuela's senate called on president Rafael Caldera to review and adjust the price. "Privatisation? Yes. But at a fair price," said Henry Ramus Allup, congressman for the social democratic party Acción Democrática.

A Sidor labour union threatened to hold up the sale with a last-minute court order, arguing the plant was undervalued and that labour rights were being infringed. But David Williams, equity analyst with Santander Investment in Caracas, said few investors were concerned about such obstacles.

"We're moving ahead with the sale no matter what," said Rául Velasquez, co-ordinator of the sale at the government privatisation agency FIV.

Raymond Colitt, Caracas

■ INVESTMENT BANKING

Morgan Stanley merges India unit

Morgan Stanley, the US investment bank, is to merge its Indian investment banking and securities business with JM Financial Group, one of India's independent domestic investment banks.

Morgan Stanley will hold a 51 per cent stake in JM Morgan Stanley Securities and a 49 per cent stake in JM Morgan Stanley Limited, the new investment bank. Nimesh Kampani, the head of JM Financial, will become chairman of both companies while Morgan Stanley's country head Vikram Gandhi, will be vice-chairman.

"This joint venture will combine the strong domestic franchise of JM Financial with the international experience and expertise of Morgan Stanley," said Mr Kampani. He said that both domestic and international capabilities were needed to "meet clients' needs in a capital market environment which will increasingly be characterised by the convergence of international and domestic markets".

John Wadsworth, chairman of Morgan Stanley Asia, said the merger marked "a significant increase in our resource and manpower commitment to India". He said Morgan Stanley continued to see significant opportunities for growth and investment in India in spite of the uncertain outlook for the region.

The merger brings together 60 Morgan Stanley employees and 350 JM Financial staff. However, the banks do not intend to merge their asset management operations, which, along with Morgan Stanley's global custody activities, will remain 100 per cent owned by the parent companies.

Goldman Sachs and Merrill Lynch of the US have already opted to develop their Indian business through a joint venture with a bank with an existing franchise.

Krishna Guha, Bombay

■ PLASTIC PIPING

BF Goodrich in Chinese venture

BF Goodrich, the US chemicals group, has signed agreements with China's Wenzhou Youli Plastic Industry to create a co-operative venture to produce plastic piping systems in China. The new company will be named the Sino-US Youli Piping Company. Approval has yet to be obtained from the Ministry of Foreign Trade and Economic Co-operation.

Wenzhou Youli will be the majority owner of the venture, which is being created to accelerate the production of high-quality CPVC (post-chlorinated PVC) piping systems in China. The Sino-US Youli Piping Company will produce plastic pipes, fittings and valves at Wenzhou Youli's plant in Wenzhou, Goodrich said.

BF Goodrich will supply CPVC compounds to the joint venture. Wenzhou Youli will obtain a licence to market and sell CPVC piping systems for industrial applications under BFGoodrich's trade name Corzan.

Reuters, Richfield, Ohio

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

Bass in £279m disposal of bingo clubs

By Scheherazade Daneshkhu

Bass yesterday sold its 130 Gala bingo clubs for £279m ($460m) to a management buy-in team backed by PPM Ventures, the venture capital arm of Prudential, the UK life and pensions company.

The brewer and leisure group, which has invested £114m in Gala's purpose-built bingo clubs over the past four years, said that returns had fallen short of its internal targets.

A sale was expected following the decision to write down the value of Gala clubs by £177m after a 23 per cent fall in the chain's operating profits from £31m to £24m in the year to September 30.

The £279m price, which includes £43m of cash balances in Gala, represents a £12m profit on the chain's book value of £232m.

PPM Ventures, which hopes to float or sell the business in three to four years, said bingo was recovering from the launch of the National Lottery in 1994.

John Kelly, a former managing director of Mecca, the bingo chain acquired by Rank, has been appointed chief executive of Gala. "Bingo admissions have stabilised and are gradually recovering," he said. Recovery was being spurred by deregulation and an improvement in the quality of clubs.

The deal does not include eight bingo clubs in Spain which Bass said it would continue to operate.

Gala is the second largest operator in the bingo market after Rank, the diversified leisure group. Three weeks ago, Vardon, the fourth largest operator, sold its 19 bingo clubs for £30.5m to HEV, a venture capital group linked to Hambros.

The sale will leave Bass with gearing of only 8 per cent. Analysts estimate that it could easily spend up to £3bn on acquisitions, but so far a big deal has eluded it.

Bass is expected to renew attempts to strengthen its position in the Czech brewing market following the decision yesterday by the Czech competition office to block a merger between the country's two biggest brewers. Bass is known to want a bigger share of Radegast, the country's second largest brewer in which it has a 33 per cent stake.

Negotiations to acquire hotels, particularly in Europe and Asia for its Holiday Hospitality chain, have not yet proved fruitful. Tom Oliver, chairman and chief executive of Holiday Hospitality, said recently: "We have got three or four situations where we can think of a reasonable price. We'd be happy to acquire at that price but we don't find the sellers have the same view."

Bass is also believed to be in preliminary talks with prospective buyers for its Coral chain of betting shops. The prospective buyers are believed to include Ladbroke and Nomura, the Japanese investment bank.

Raw Victorian enterprise finely distilled

David Blackwell charts the Dewar family's success as the whisky brand is put up for sale

Dewar owes its leadership of the US whisky market to the vision of a remarkable Scotsman from the founding family in the late nineteenth century.

Tommy Dewar, youngest son of the original John Dewar of Perth, had a way with words worthy of a Hollywood mogul.

"Some people are always looking for new kinds of mistakes to make," and "a teetotaller is one who suffers from thirst instead of enjoying it" are among his more famous aphorisms.

Deployed in the promotion of Dewars whisky, this talent proved a formidable tool for building the brand. Tommy was instrumental in expanding Dewars out of Scotland to London in 1885, when he was just 21 years old. He overcame the discovery that one of his London contacts was dead and the other bankrupt, and by 1893 the brand was awarded a Royal Warrant.

Early in his career he started to build his marketing skills, employing a bagpiper to sensational effect at a Birmingham brewery exhibition. He had a head start in the US in the early 1890s when Andrew Carnegie sent a keg of Dewar's to the president – Benjamin Harrison.

The American press seized on the story as a demonstration of the hapless president's failure to support home-grown products. The result, a gleeful Tommy recalled, was that "inquiries and orders flowed to us from all parts of the States".

He fell in love with New York, a city which facilitated the development of his flair for advertising. In 1898 he commissioned the first film advertisement for a drink, and projected the coming to life of a painting of whisky drinkers on to a large screen on the roof of a building in a New York square.

While he was travelling the world creating new markets, his brother, John, was setting up the infrastructure back in Scotland to support the rising demand.

When John died in 1929 he left an estate of more than £4.5m. Tommy, who had become Lord Dewar in 1919, died within 12 months, leaving more than £5m.

The business had been founded in 1846, when whisky was emerging from the shadows of illicit distilling. The original John Dewar – neighbour and rival to Arthur Bell in Perth – recognised from the beginning that consistent quality was the key to winning repeat custom.

His sons' remarkable expansion was hindered by the Great War and prohibition in the US. Consolidation of the industry gave birth to the Distillers Company, embracing Dewar's in 1925. This subsequently became part of United Distillers, subject of a 1986 takeover by Guinness.

Last year Dewar's accounted for sales of 1.5m of the US total of 8.4m cases of Scotch sold. There should be no shortage of interested potential purchasers – but perhaps they should take a word of advice from Tommy: "Never invest in a going concern until you know which way it is going."

Dewar's assets will be transferred once more

Spotlight on Colloids' books

By Emiko Terazono

Hercules, the US speciality chemicals group which last month announced a £1.07bn ($1.76bn) hostile bid for Allied Colloids of the UK, yesterday renewed its offensive by attacking Allied's accounting practices and questioning its investment strategy and cost cutting initiatives.

"Shareholders have not been served well by Allied's management," said Vincent Corbo, president of Hercules. He said his company's cash offer of 155p a share was "generous".

Allied, which posted its defence document last week, said Hercules had chosen to ignore its record of organic growth and improvements in operating margins. "Hercules has tried to distract people from the key issues," said David Farrar, chief executive.

Hercules said that if Allied had been forced to use the new UK accounting standards for the amortisation of goodwill on CPS – the finished polymer manufacturing subsidiary it acquired last year – the UK group's earnings per share would have been much lower.

It also questioned whether CPS would be able to maintain sales volumes while the cost of replacing an ageing plant would hit profits. Hercules highlighted a spate of earnings downgrades by analysts since last May.

Hercules said that its 155p a share bid was 15 times prospective earnings before interest and tax, which compared with ICI's acquisition of Unilever Speciality Chemicals at 14, Allied's purchase of CPS at 11 and Yule Catto's offer for Holliday Chemical at 9 times.

Despite Hercules' claims of a generous price, analysts expect the US group to raise its offer. "155p is too low. Hercules can pay up to about 170p without significantly diluting its earnings," said Andrew Stott, chemicals analyst at BZW. The war of words is expected to continue until January 4, the last day for Allied to post its final defence. Any counterbid or an increase in Hercules' offer would happen after that, said analysts.

Lonrho's hotels sale delayed

By Andrew Edgecliffe-Johnson

Lonrho's restructuring faces further delay. Its planned sale of the Princess Hotels to Prince Al Waleed bin Talal Bin Abdulaziz Al-Saud has fallen through.

Lonrho is believed to have started talks with more than one US hotel group after the prince's exclusivity agreement expired 10 days ago.

The prince, who began discussions with Lonrho more than 14 months ago, had been given exclusive rights to negotiate the acquisition of eight of the 10 hotels, but is "no longer the front-runner", Lonrho said.

A disposal was originally expected by October 1996, but a deal is not now expected until spring 1998. One analyst said the delay was "another dent to the credibility of Lonrho's management".

Lonrho is expected to announce progress in another part of its restructuring, however, when it confirms the sale of its Dutton-Forshaw car dealership, which was once considered as a flotation candidate.

The conglomerate is expected to say tomorrow that a management buy-out team backed by CVC Capital Partners, the venture capital group, is paying more than £105m ($173.3m) for Dutton-Forshaw, which includes the Jack Barclay Rolls-Royce and Bentley dealership. The price is expected to include about £50m cash, and the buy-out team will assume the company's debts, estimated at about £50m.

The proceeds will further reduce Lonrho's gearing of about 25 per cent.

Charles Kernot, an analyst at Paribas, welcomed news of the sale as "a sign that, slowly but surely, they are slimming Lonrho down to a focused mining group".

The prince and his advisers are believed to have spent about £15m on due diligence for the Princess hotels, which Lonrho was expected to sell for up to $450m. The inclusion of all 10 of the hotels into any sale may ensure that Lonrho receives a higher price.

Greg Feehely, hotels analyst at Dresdner Kleinwort Benson, said Hilton International and Host Marriott would be the most likely candidates to buy the Princess chain. Other analysts mentioned ITT Sheraton.

Christie's appoints Merrill Lynch

By David Blackwell

Christie's International, the auctioneer, yesterday appointed Merrill Lynch International as joint stockbroker following the £500m ($825m) bid approach from SBC Warburg Dillon Read.

SBC Warburg, formerly sole broker to its target, confirmed that it had made a preliminary approach to the board of Christie's "to investigate the possibility of a private equity consortium making an offer for the company".

Shares in Christie's – which rose last week on speculation over a bid – fell 12p to close at 288p yesterday. The share price, which has fallen as low as 218p this year, had been hit by fears that market turmoil in south-east Asia could have hit the wealthy buyers on whom auctions rely.

After an initial rebuff two week ago, SBC Warburg is understood to have raised its offer to 300p a share. Christie's decided that the revised offer formed a basis for starting negotiations.

SBC Warburg said yesterday that an offer would only be made on the board's recommendation and after due diligence had been satisfactorily completed. "This is very early days," the bank said, stressing that it was not entering the art market.

No details of the financing have been revealed. But the bank is planning to recruit wealthy private investors to buy shares in the auctioneer in a scheme devised by Brian Keelan, one of its senior corporate financiers.

Joe Lewis, the Bahamas-based billionaire who holds 29 per cent of Christie's shares, is aware of what is going on, but does not appear to be directly involved.

Coats to unveil strategic plans

By Andrew Davis

Coats Viyella will tomorrow announce the results of a strategic review which is expected to lead to the demerger of its clothing and home furnishings businesses. Its shares rose 13½p to 115p on news that an announcement on strategy was imminent.

Analysts welcomed the prospect of a split in Coats' businesses that reflected its geographical spread – separating the European-concentrated clothing and home furnishing activities from the global thread and precision engineering operations.

There was also hope that Coats would speed the restructuring of its threads business, helping align its operations more closely with its customers. However, observers said it was difficult to put values on Coats' businesses until it became clear how debt would be divided between them.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
								Dividends				
AromaScan	6 mths to Oct 31	0.49	(1.35)	1.07L	(1.08L)	3.97L	(4.06L)	-	-	-	-	-
Avocet Mining	6 mths to Sept 30	17.6	(8.88)	0.902L	(2.97L)	2.8L†	(9.4L)	-	-	-	-	-
Buradene Invs	Yr to Sept 27	91.3	(85.5)	6♥	(6.06)	4.05	(3.81)	1.3	Feb 13	1.25	2.05	2
Cambridge Antibody	Yr to Sept 30	1.13	(2.11)	8.36L♠	(3.26L)	47.9L†	(43.1L)	-	-	-	-	-
Channel	6 mths to Oct 31	30.1	(28.2)	1.77	(1.38)	1.3	(1)	0.55	Apr 1	0.55	-	1.85
Fountain Forestry ϕ	Yr to Sept 30	21.8	(18.8)	0.955	(0.723)	7.9†	(7.1)	1.83	Feb 24	-	2.75	-
Girevend Cashless	6 mths to Sept 30‡	3.25	(6.17)	0.243L	(0.824)	1.29L	(4.15)	-	-	-	-	-
Hadleigh	6 mths to Sept 26	14.3	(15.2)	0.933	(0.953)	8.6	(8.6)	2.25	Jan 30	2.25	-	7
Hardys & Hansons	Yr to Oct 3	35.7	(34.5)	8.48	(8.27)	23.071	(21.957)	7.2	Mar 2	6.8	11.4	10.5
MFI Furniture	28 wks to Nov 8	475.5	(440.5)	35.4	(32.7)	4.24	(3.85)	1.8	Feb 6	1.7	-	4.8
ML Laboratories	Yr to Sept 30	6.86	(10.4)	1.12	(5.45)	0.5	(3.6)	-	-	-	-	-
Optometrics $	6 mths to Sept 30	1.7	(1.76)	0.038	(0.114L)	0.3	(1L)	-	-	-	-	-
Phonelink	6 mths to Sept 30	1.85	(2.16)	1.74L	(3.15L)	3.6L	(6.7L)	-	-	-	-	-
Plysu	6 mths to Sept 30	71.1	(67.1)	3.9♠	(3.6)	5.6	(4.9)	2.2	Feb 2	2	-	7.75
Stockbourne	6 mths to Sept 30	0.6	(1.25)	0.126L	(0.76L♠)	0.07L†	(0.45L)	-	-	-	-	-
Wellman	6 mths to Sept 30	70.9	(64.5)	1.52♠	(4.11♥)	0.6	(2.3)	nil	-	0.45	-	1.85

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Bankers	Yr to Oct 31	261.4	(224.2)	9.52	(8.97)	8.14	(5.78)	1.5	Feb 28	1.27	5.25	4.66
Govett High Income	Yr to Oct 31 ★	82.49	(85.68)	2.78	(2.8)	5.81	(5.86)	2.24	Feb 5	2.24	5.6	5.8

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. ϕAim stock. †On increased capital. ‡Comparatives pro forma. $US currency. ★Comparatives restated.

RBS to sell share registrars business

By George Graham, Banking Editor

Royal Bank of Scotland is to sell its share registrars business to Computershare in exchange for a stake worth about A$56m ($37.5m) in the Australian software and registration specialist.

Registration, ranging from maintaining shareholder lists and distributing share certificates to the management of employee share ownership schemes, has been a focus for Royal Bank in recent years.

As other UK banks have withdrawn from the increasingly specialised business, the Scottish bank has built its own registration business to number two in the UK, after Lloyds Bank Registrars, with about 700 company share registers and 30 per cent of the market. This year it handled the flotations of the Halifax and Northern Rock building societies, two companies whose shareholder registers are among the UK's biggest.

Earlier this year, Royal Bank bought a stake in Computershare with a view to making use of its technology. But it will now transfer its own operations to the Australian company, increasing its stake from 9 to 20 per cent.

Iain Robertson, managing director of corporate and institutional banking at Royal Bank, said the registrar business had changed strategically and become more technology dependent.

"It is at the moment basically a bank service. I believe, going forward, the success of all these businesses will be driven more and more by the technology."

Computershare's technology will allow the immediate introduction of services, such as document imaging and interactive voice recognition for shareholder inquiries.

"We would have to spend a lot of money trying to replicate this," Mr Robertson said.

Chris Morris, Computershare managing director, said he expected to lift the company's share of the UK market and hoped to expand in Europe in partnership with Royal Bank.

The Royal Bank business has about 14m shareholder accounts, and will double Computershare's business to about 30m accounts.

NEWS DIGEST

Saatchi back on the market

The Saatchi & Saatchi name returned to the Stock Exchange yesterday after a two year absence, following the demerger of Cordiant, the advertising group.

For every two shares in Cordiant, investors received one share in Cordiant Communications and one in Saatchi & Saatchi. The two entities ended yesterday with nearly the same market value as their respective shares closed at 109p and 110p. Saatchi, unchanged on the day, was valued at £244m ($402.6m) while Cordiant was capitalised at £242m as its shares slipped 4p.

The demerger, announced in April, was intended to remove the problem of client conflicts. For example, arch rivals Unilever and Procter & Gamble would normally be reluctant to be serviced by the same advertising agency. By splitting the two agencies, Cordiant hopes it can win extra business.

The demerger has received a mixed response from analysts. Some pointed out that other marketing services groups, such as WPP and Omnicom, were able to accommodate separate agencies within the same group. Others believed, however, that the demerger might increase the prospect of a bid for one of the two networks.

The two agencies are forecast to make similar pre-tax profits for 1998, of between £31m and £33m. *Charis Gresser*

Federal has 90% of T&N

Federal-Mogul, the US car parts group, has received acceptances from more than 90 per cent of T&N's shareholders for its agreed £1.5bn ($2.47bn) bid for its UK automotive components rival.

Some analysts raised questions about whether it would face tougher hurdles than expected in getting regulatory approval for the 250p per share cash offer. They pointed to the wording of Federal-Mogul's statement yesterday, which said it had "determined not to declare the offer unconditional as to acceptances at this stage," because it had not yet satisfied all the regulatory conditions.

When he announced the deal in October, Dick Snell, Federal-Mogul's chairman and chief executive, said the combined group might have to sell some thin-wall bearing assets to satisfy US and European competition authorities. He said at the time that he expected to dispose of businesses with sales of $200m-$250m.

The group need not declare the bid unconditional until February 2. The offer has been extended until January 2. *Andrew Edgecliffe-Johnson*

CAT scanning for proteins

Cambridge Antibody Technology yesterday unveiled a new technique for discovering the proteins that cause disease and said it had already found two potential culprits – one connected to cirrhosis of the liver and one to Crohn's disease.

The technology, called ProAb, allows researchers to scan the body for concentrations of proteins and could provide a valuable source of "targets" for new drugs. One of the biggest areas of research into drugs is the investigation of targets – proteins which appear to be contributing to the progress of a disease.

The company said it was able to scan 1,000 proteins a month. From 1,000 already examined, it had found at least two potential targets which appear in diseased tissue but not elsewhere in the body.

The news came as the company, which specialises in the manufacture of human antibodies, reported a loss of £8.36m (£3.26m) in its first full-year results since floating on the stock market in March. The shares closed up 5p at 375p compared with a flotation price of 500p.

The company was left with net cash of £45m after raising £41m from the flotation. It said its research expenditure was expected to rise next year to about £18m and that cash reserves were expected to last up to three years. *Roger Taylor*

Psion wins Dell contract

Shares in Psion rose yesterday after the specialist maker of hand-held computers and data-communications products revealed that it had been selected to be a global supplier of high-speed PC Card modems by Dell Computer, the personal computer manufacturer.

The shares closed up 17½p at 451p, after the company said the agreement should lead to significant growth at its Psion Dacom subsidiary next year. *Paul Taylor*

Elan to acquire Sano

Elan Corporation, the Dublin-based pharmaceutical group, is acquiring Sano, a US developer of transdermal drug delivery systems, in an all-share transaction valuing Sano at about $375m.

Donal Geaney, chairman and chief executive of Elan, said: "The acquisition significantly advances our goal of being the leading provider of drug delivery technology. It will also accelerate the evolution of our direct pharmaceutical business by providing an additional source of new products." Sano will remain based in Miramar, Florida.

BP buys stake in Chinese JV

BP has bought a stake in a Chinese aircraft refuelling joint venture from Vitol Holding for an undisclosed sum. Fortune Oil, the Hong Kong-based investment fuel distribution group which is listed in London, and which is a partner in the joint venture, said it had agreed to the sale.

Fortune signed a $167m agreement late last year with China Aviation Oil Supply (CAOSC), the state-owned aviation fuel supply company, to create the South China Bluesky refuelling group. BP will own 24.5 per cent of Bluesky which will have a monopoly in providing aviation fuel in south China along with Fortune, which owns 24.5 per cent and CAOSC which owns 51 per cent. *Emiko Terazono*

Gold hedge gain for Avocet

Avocet Mining, the UK-based gold and tungsten producer, reduced losses in the six months to September 30 from £2.97m to £902,000 as revenue from its new Malaysian gold mine came on stream. Turnover doubled to £17.6m.

Nigel McNair Scott, chairman, said the second half result would be buoyed by profit from the closing out of an £8.4m gold hedge. However, the tungsten operations continued to operate at a loss owing to oversupply in the market.

European sector edges higher

GOVERNMENT BONDS

By Simon Davies in London and John Labate in New York

Most European government bond markets edged higher yesterday in quiet trading, while US Treasuries weakened after last week's considerable gains.

Traders said that money was waiting on the sidelines in a week that will see the release of retail data in the US and UK as well as the latest Federal Open Market Committee meeting on US interest rates.

UK GILTS performed strongly, as the market digested the OECD's somewhat gloomy prognosis for economic growth, continuing a chain of relatively weak data in recent weeks. The March contract settled at 121⅜, up 3/32 on the day and 1 19/32 higher than a week ago.

Andrew Roberts, gilts analyst at UBS Securities, said: "Liquidity positions for UK pension funds are at a seven-year low, and there must be an incentive to invest some of that before the year-end.

"There is room for a narrowing of the spread between bunds and gilts, if people think interest rates have peaked." The adjusted spread was static yesterday at 109 basis points.

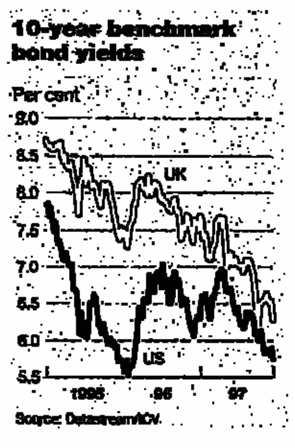
Certainly, there has been recent evidence to suggest that the multiple interest rate rises of recent months could be starting to bite. Wednesday's retail sales figures should provide some direction for the market.

Kit Juckes, bond strategist at NatWest Markets, suggested that, given current expectations of retail gloom, there is room for some disappointment. "Given the building society windfalls that have been accumulated, the idea that Christmas has been cancelled does not sit comfortably," he said.

GERMAN BUNDS also continued to strengthen. The March contract settled 0.02 higher at 104.62, although this was 0.19 off its high, reflecting the weak opening on Wall Street and worries ahead of Thursday's Bundesbank meeting. Trading was comparatively thin, with just over 100,000 contracts traded.

The cash yield on the 10-year bund remained at 5.28 per cent, just short of its historic high of 2.5 per cent.

10-year benchmark bond yields



Source: Datastream/ICV

But Mr Juckes expects it to hurdle that barrier and head for 5 per cent.

The big surprise of the day in Europe came from Spain, where the central bank cut interest rates by 25 basis points to a historic low of 4.75 per cent.

Phyllis Reed, director at Barclays Capital, said: "I think they are trying to take advantage of the window of opportunity provided by Germany, in terms of the limited upward pressure on German rates."

The downward move had been anticipated by the markets, even if the timing came as a surprise. The March BONO contract settled 0.16 higher at 105.89, and in the cash market the yield spread over bunds narrowed from 37 to 34 basis points.

The government also announced that the new market for strippable bonds will open on January 7.

Italian BTPs rose with the March contract settling at 115.52, up from 115.45. Ms Reed argued that the Bank of Italy might move after the budget is passed at the end of the week. "If they cut, it is more likely to be by 50 basis points, and it could even be by 75," she said.

Certainly, the IMF report on Italy projected a rate cut, assuming no concessions were made over the budget.

The government benefited from the recent strength of the bond market, auctioning a third tranche of L3,000bn of 30-year bonds at a gross yield of 6.08 per cent, compared with the 6.59 per cent yield achieved at the last auction on November 14.

US TREASURIES pulled back a little in light trading, ahead of today's Federal Reserve Open Market Committee meeting on interest rate policy. By early afternoon the 30-year bond, the benchmark for long-term rates, was 1/32 lower at 102 21/32, yielding 5.934 per cent.

Among shorter-term issues, the 10-year note was down 1/32 to 102 9/32, yielding 5.741 per cent, while the two-year note was off 1/32 at 99 25/32, yielding 5.641 per cent.

The yield curve continued to flatten, with the spread between two-year notes and 30-year bonds narrowing to just over 29 basis points.

"We're trading firm but not with much activity," said William Gamba, manager of bond trading at Cowen & Co. "It's very quiet and this is the last full week until after the new year," he added.

Adding some pressure to the morning market was a stronger than expected reading on industrial production, which rose 0.8 per cent in November. Capacity utilisation for the month was reported at 83.3 per cent, slightly higher than a revised 82.9 per cent in October.

"Obviously, the market doesn't mind as long as inflation remains benign," said Mr Gamba. New figures on consumer prices and the housing markets will be released today.

Stake in Athens SE sold for Dr22bn

By Kerin Hope in Athens

The private placement of a 38 per cent stake in the Athens Stock Exchange with local investors has raised Dr22bn, Greece's finance ministry said yesterday.

Officials said they were satisfied with the disposal, although the take-up was less than the 45 per cent stake offered and the Dr11,500 share price was at the bottom of the offering range.

Book-building took place last week amid a sharp fall on the Athens bourse, following renewed turmoil on Asian markets. The sale was timed to ensure the finance ministry, which controls the bourse, could book the proceeds this year against the public debt.

Alpha Finance and ETEVA, the Greek investment banks, acted as advisers and book-builders. The remaining 62 per cent is to be offered for sale in 1999, when bourse officials plan to list the exchange itself. Until now, the government's privatisation policy has restricted disposals to 25 per cent of state enterprises.

Officials said almost 200 of 500 eligible investors bought shares but none approached the 5 per cent limit for a single institution.

Greek banks took up more than half the offering, led by state-controlled National Bank of Greece and Alpha Credit Bank, the biggest Greek credit institutions. The third biggest investor was OTE, the public telecoms operator, which was floated last year.

Brokerage companies took less than 10 per cent, although almost all the 63 stock exchange members participated.

Banks settle dispute on Euribor rate

By George Graham, Banking Editor

European banks have settled a long-running dispute about the calculation of the Euribor benchmark interest rate for interbank lending in euros.

The European Banking Federation yesterday published a set of rules governing which banks may join the panel which will contribute to the Euribor calculation.

Euribor will play an important role after the start of European monetary union in 1999, since it has been designated as the successor rate to a number of continental European interest rates widely used in derivative contracts, such as Germany's Fibor and France's Pibor.

The rules lay down a quota for each country and require countries to rotate panel membership if they have too many banks with a claim to membership.

"This is a major breakthrough after difficult negotiations and an important step towards a single euro money market when Emu starts in 1999," said Nikolaus Bömcke, EBF secretary general.

With 64 members, the Euribor panel will still be much larger than the panel used by the British Bankers' Association for calculating the euro Libor interest rate.

Some banks worry that will mean the Euribor interest rate comes out higher than, say, its Fibor predecessor, since the European panel will probably include banks with a lower credit rating than the big German banks, many of which are still rated triple A because of their government guarantee.

However, senior bankers said yesterday the new rules laid down strict criteria on size, and also made it clear the arrangements would be reviewed after a year.

Mr Bömcke said in practice the panel would be smaller than 64. The new rules allocate a notional six places to UK banks, but EU countries outside Emu will be restricted to a total of four seats. The UK would have to share those four seats with other "out" countries such as Denmark.

With details available on Euro Libor, Euribor and an effective overnight rate to be sponsored by the European System of Central Banks, significant progress has been made on price sources.

Most countries have announced what will happen to their national interest rate benchmarks but the International Swaps and Derivatives Association criticised Italy and Portugal for failing to make clear what would happen to lira Ribor rate and escudo Lisbor rate. Uncertainty also remains on Dutch guilder Aibor.

Isda also published yesterday a draft protocol that would allow banks to amend their derivatives contracts in one fell swoop, as well as a set of detailed steps aimed at helping operations managers handle the transition to Emu at the end of next year.

The guidance advises that deals entered in a national currency should be kept that way unless agreed otherwise, so as to minimise the conversion burden on the last weekend of 1998.

New notes from Fannie Mae

INTERNATIONAL BONDS

By Samer Iskandar

Fannie Mae, the largest US mortgage lender, will next year issue roughly half its $80bn funding programme to the form of new benchmark notes.

The issues, with sizes of between $2bn and $5bn each and maturities of two years to 10 years, will be more liquid than existing, smaller deals. They are also likely to reduce Fannie Mae's funding costs, as investors are generally willing to accept lower yields in exchange for higher liquidity. The "bullet" structure, where the bonds are not redeemable before their final maturity, should also help achieve lower yields.

Fannie Mae said the programme had been motivated by demand from investors.

"Investors value liquidity," said Linda Knight, treasurer. "It is important for us to keep raising the size of our issues."

The borrower also said the notes, which could be issued from next month, were likely to become its preferred issuance method for non-callable debt.

Ms Knight said the programme was designed to satisfy investor preferences and that Fannie Mae would have "the flexibility to re-open issues if there is interest from investors".

ANNINGTON FINANCE, formed last year by Nomura International and fellow investors Blackrock Capital Finance and Electra Fleming to acquire 57,000 properties from the UK Ministry of Defence, launched its planned issue of 25-year bonds.

The deal, which will be priced this afternoon, comprises two tranches of zero-coupon securities, as well as £900m of floating-rate notes.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ STERLING							
Annington Finance, FRN(a)‡	900	(a1)§	(a2)R	Jan 2023	0.50R		Nomura International
Annington Finance, Class A	1.24bn	zero	(a3)R	Dec 2022	0.25R	+80(8%Jun21)	Nomura International
Annington Finance, Class B	1bn	zero	(a3)R	Jan 2023	0.35R	+130(8%Jun21)	Nomura International

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: Fixed re-offer price; fees shown at re-offer level. a) Callable from Apr 99 at par. a1) 3-mth Libor +40bp to Jan 08, then +100bp. a2) Priced today to yield Libor +83bp to step-up. a3) Priced today. § Long 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Dec 15	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.4406	5.40	-0.08	-0.18	+0.42	-0.75
	10/07	10.000	128.3160	6.08	-0.11	-0.12	+0.13	+1.31
Austria	09/99	7.000	104.1800	4.46	-0.01	-0.03	-0.09	-0.55
	07/07	5.625	101.8900	5.38	-	-0.09	-0.28	-0.61
Belgium	01/00	4.000	99.2000	4.40	+0.01	-0.18	+0.05	+1.05
	03/07	6.250	105.9000	5.42	-0.01	-0.10	-0.30	-0.57
Canada	09/99	4.750	99.8000	4.99	-0.02	+0.38	+0.97	-0.74
	06/07	7.250	111.6000	5.63	-0.02	-0.08	-0.20	-0.88
Denmark	12/99	6.000	102.6700	4.56	-0.01	-0.16	-0.19	+0.41
	11/07	7.000	109.8200	5.68	-0.01	-0.16	-0.41	-1.02
Finland	01/99	11.000	107.0770	4.12	-0.01	-0.07	-0.22	-0.21
	04/06	7.250	111.6310	5.44	+0.02	-0.11	-0.34	-1.04
France	01/00	4.000	99.3973	4.31	-0.01	-0.02	-0.06	-0.72
	10/04	6.750	109.8100	5.02	+0.01	-0.11	-0.27	-0.21
	10/07	5.500	101.6200	5.28	-0.01	-0.10	-0.31	-0.50
	10/25	8.000	102.3100	5.83	-	-0.09	-0.35	-0.91
Germany	09/99	4.000	99.7800	4.14	-	-0.06	-0.07	+0.68
	11/04	7.500	113.4800	5.13	-0.01	-0.04	+0.19	-0.35
	07/07	6.000	105.2000	5.29	-	-0.08	-0.29	-0.56
	07/27	6.500	109.0400	5.85	-0.02	-0.07	-0.34	-0.89
Ireland	04/99	6.250	101.4000	5.08	-0.07	-0.11	-0.35	-0.94
	08/06	8.000	116.2000	5.59	-0.02	-0.17	-0.48	-1.22
Italy	05/00	6.000	102.3300	4.95	-0.03	-0.11	-0.37	-1.52
	05/02	6.250	103.9800	5.22	-0.04	-0.14	-0.35	-1.85
	07/07	6.750	107.9200	5.66	-0.01	-0.12	-0.39	-1.92
	11/26	7.250	114.7700	6.15	-	-0.10	-0.45	-1.87
Japan	03/00	6.400	112.9200	0.59	-0.02	-0.14	-0.16	-0.17
	12/02	4.800	117.6000	1.15	-0.11	-0.05	-0.06	-0.67
	03/05	3.000	109.5400	1.68	-0.03	+0.03	-0.02	-0.78
	09/17	3.000	107.3900	2.52	+0.03	+0.05	-0.02	-0.75
Netherlands	11/99	7.500	105.6600	4.34	-	-0.01	-0.03	-0.89
	02/07	5.750	103.5700	5.25	-0.01	-0.09	-0.31	-0.56
New Zealand	02/00	6.500	98.4908	7.27	-	-0.04	-0.32	-0.28
	11/06	8.000	106.9481	6.92	-0.01	-0.03	+0.26	-0.50
Norway	01/99	9.000	104.9100	4.39	+0.03	-0.03	-0.10	-0.38
	01/07	6.750	109.0000	5.46	-	-0.10	-0.32	-1.07
Portugal	03/99	8.500	104.4086	4.79	-	-0.04	-0.27	-1.40
	02/07	6.625	106.8365	5.64	-0.03	-0.13	-0.34	-1.32
Spain	07/99	7.400	104.2716	4.60	-0.03	-0.08	-0.14	-1.29
	03/07	7.350	112.5942	5.57	-0.03	-0.16	-0.33	-1.36
Sweden	01/99	11.000	106.1360	5.06	-	-0.19	-0.01	-0.31
	08/07	8.000	114.6080	5.96	-	-0.23	-0.37	-1.03
Switzerland	03/00	5.000	106.5000	1.99	-0.09	+0.24	-0.05	-0.10
	06/07	4.500	109.4500	3.32	-0.02	-0.16	-0.34	-0.59
UK	08/99	6.000	98.6875	6.85	-0.02	-0.15	-0.28	-0.28
	11/04	6.750	101.9375	6.40	-0.01	-0.21	-0.34	-1.02
	12/07	7.250	107.2344	6.26	-0.01	-0.21	-0.39	-1.42
	06/21	8.000	122.0703	6.20	-0.01	-0.20	-0.34	-1.55
US	10/99	5.625	99.9390	5.66	-0.02	-0.19	-0.05	-0.08
	11/04	7.875	111.3300	5.76	-0.01	-0.21	-0.13	-0.29
	08/07	6.125	102.8130	5.74	-	-0.21	-0.12	-0.57
	08/27	6.375	105.2970	5.99	-	-0.20	-0.14	-0.58
ECU	01/00	4.000	99.6800	4.67	-0.02	-0.05	-0.01	+0.59
	04/07	5.500	100.7100	5.40	-	-0.11	-0.35	-0.78

London closing. *New York mid day. Source: Interactive Data/FT Information. Yields: Local market standard Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Dec 15	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	6.17	+0.83	-0.38	New Zealand	6.92	+1.63	+1.18
Austria	5.38	+0.57	-0.38	Norway	5.46	+0.17	-0.28
Belgium	5.42	+0.12	-0.32	Portugal	5.64	+0.35	-0.10
Canada	5.63	+0.34	-0.11	Spain	5.57	+0.28	-0.17
Denmark	5.68	+0.39	-0.08	Sweden	5.96	+0.67	+0.22
Finland	5.44	+0.15	-0.30	Switzerland	3.32	-1.97	-2.42
France	5.28	-0.01	-0.46	UK	6.26	+0.97	+0.52
Germany	5.29	-	-0.45	US	5.74	+0.45	-
Ireland	5.59	+0.30	-0.15	ECU	5.40	+0.11	-0.34
Italy	5.66	+0.37	-0.08				
Japan	1.68	-3.61	-4.06				
Netherlands	5.25	-0.04	-0.49				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Dec 15	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB-	94.1163	8.70	-0.18	-0.56	+2.99
Poland	07/04	7.125	BBB-	99.3541	7.25	-0.03	-0.13	+1.53
Russia	06/07	10.000	BB-	96.8000	10.54	-1.76	-2.24	+4.80
■ LATIN AMERICA								
Argentina	09/27	9.750	n/a	97.3000	10.03	-0.98	+1.60	+4.10
Brazil	05/27	10.125	BB-	94.9500	10.69	-0.94	-1.87	+4.76
Mexico	05/26	11.500	BB	114.7500	9.92	-0.04	-0.81	+4.00
■ ASIA								
China	07/06	7.750	BBB+	105.2903	6.90	+0.01	-0.17	+1.17
Philippines	10/16	9.750	BB+	90.2467	9.90	-0.08	-0.52	+4.07
Thailand	04/07	7.750	A-	90.8149	9.25	-0.07	-0.97	-3.51
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	103.0611	7.75	-0.03	-0.14	-2.09
South Africa	10/06	8.375	BB+	102.4550	7.97	-0.03	-0.16	+2.24
Turkey	09/07	10.000	B	98.8293	10.18	+0.04	-0.17	+4.44
■ BRADY BONDS								
Argentina	03/23	5.500	BB	71.0200	8.85	-	-0.66	+2.96
Brazil	04/14	4.500	BB-	73.3800	10.71	-0.10	+2.32	+4.90
Mexico	12/19	6.250	BB	81.6300	8.04	-0.05	-0.53	+2.19
Venezuela	03/20	6.750	B+	85.0000	8.23	+0.10	-0.32	+2.37

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	101.84	101.78	+0.08	101.86	101.70	29,535	33,417
Mar	101.34	101.22	-	101.36	101.18	77,066	137,000
Jun	100.76	100.62	-0.02	100.78	100.76	2	112

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
96	3.96	3.97	4.04	-	0.03	0.11
97	2.96	3.02	3.13	-	0.08	0.19
98	1.97	2.13	2.27	0.01	0.18	0.32
99	1.04	1.33	1.51	0.08	0.37	0.55
100	0.33	0.70	0.90	0.37	0.74	0.93

Est. vol. total, Calls 4,670 Puts 9,227. Previous day's open int., Calls 70,723 Puts 102,483.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	104.65	104.62	+0.02	104.81	104.54	101137	268678
Jun	103.99	104.02	+0.02	104.03	103.98	162	502

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	CALLS Jun	PUTS Jan	PUTS Feb	PUTS Mar	PUTS Jun
10450	0.33	0.67	0.91	1.10	0.21	0.55	0.78	1.58
10500	0.11	0.43	0.67	0.88	0.49	0.81	1.05	1.86
10550	0.03	0.26	0.47	0.68	0.81	1.14	1.35	2.17

Est. vol. total, Calls 9850 Puts 8850. Previous day's open int., Calls 167051 Puts 171902

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	104.01	104.01	-0.06	104.16	104.01	99,692	192,247

■ NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	104.07	104.05	-0.01	104.15	104.00	4,570	11,511
Jun	-	103.47	+0.02	-	-	-	-

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	115.46	115.52	+0.07	115.73	115.42	26734	120292
Jun	-	114.94	+0.07	-	-	0	53

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Mar	CALLS Jun	PUTS Mar	PUTS Jun
11550	0.93	1.19	0.91	1.75
11600	0.67	0.99	1.15	2.05
11650	0.47	0.81	1.45	2.37

Est. vol. total, Calls 2687 Puts 1975. Previous day's open int., Calls 33434 Puts 33233

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	106.20	106.29	-0.20	106.41	106.13	58,978	8,443
Mar	105.82	106.89	-0.16	106.00	105.74	55,203	73,181

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	121-00	121-01	+0-03	121-06	121-00	1865	20578
Mar	121-20	121-20	+0-03	121-25	121-12	29261	169109

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	CALLS Jun	PUTS Jan	PUTS Feb	PUTS Mar	PUTS Jun
121	0-54	1-24	1-42	0	0-14	0-48	1-02	15-04
122	0-18	0-50	1-08	0	0-42	1-10	1-32	16-04
123	0-04	0-27	0-49	0	1-28	1-51	2-09	17-04

Est. vol. total, Calls 1440 Puts 348. Previous day's open int., Calls 56012 Puts 28408

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	100.88	100.86	+0.10	100.88	100.82	404	4,808
Mar	100.52	100.54	+0.04	100.52	100.48	615	2,765

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	120-19	120-13	-0-04	120-24	120-09	28,952	98,833
Mar	120-16	120-07	-0-05	120-20	120-03	594,793	807,276
Jun	120-03	120-01	-0-01	120-03	119-28	3,432	21,259

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	129.95	-	-	130.05	129.50	1274	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day

US CORPORATE BONDS

Dec 12	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ UTILITIES								
Pac Bell	07/02	7.25	AA-	104.2154	6.15	-0.08	-0.10	-0.47
NY Tel	08/25	7.00	A+	98.9648	7.08	-0.08	-0.12	+1.15
CWE	05/06	8.00	BBB	109.3979	6.72	-0.08	+0.13	+0.98
■ FINANCIALS								
GECC	06/07	8.75	AAA	117.0882	6.31	-0.06	-0.12	+0.57
Banc One	08/02	7.25	A+	104.0458	6.22	-0.06	-0.07	+0.53
US West	01/07	7.30	BBB+	103.3729	6.79	-0.08	-0.16	+1.05
■ INDUSTRIALS								
WMX Tech	04/98	6.25	A-	99.8361	6.37	-0.04	+0.06	+0.77
Wal Mart	05/02	8.75	AA	102.3685	6.12	-0.06	-0.10	+0.43
Dayton Hud	06/21	8.70	BBB+	130.2060	7.05	-0.07	-0.17	+1.12
■ AGENCIES								
FHLMC	04/07	7.14	N/A	107.5461	6.06	-0.06	-0.12	+0.32
SLMA	03/00	7.50	N/A	103.5069	5.79	-0.08	-0.06	-0.14
FNMA	02/18	8.95	N/A	129.3036	6.35	-0.07	-0.17	+0.42
FFCB	06/06	8.95	N/A	118.9053	6.06	-0.07	-0.12	-0.32
■ HIGH YIELD								
Stone Cont	02/01	9.88	B	102.1250	0.00	-	-	-
AK Stl	12/01	9.13	BB-	103.6250	0.00	-	-	-
Pacelta	06/04	10.75	B+	97.5000	0.00	-	-	-

New York closing. Source: Interactive Data/FT Information. Standard & Poor's ratings. Yields: semi-annual basis.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	5.64
Broker loan rate	7¾	Two month	-	Three year	5.68
Fed funds	5 11/16	Three month	5.21	Five year	5.72
Fed funds at intervention	-	Six month	5.37	10-year	5.76
		One year	5.44	30-year	5.95

INTERNATIONAL BONDS

Dec 15	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ EURO DM								
EIB	02/07	5.750	AAA	102.8200	5.35	-	-0.31	-0.06
Spain	01/07	5.750	AA	102.1500	5.44	-0.01	-0.29	-0.15
Philip Morris	02/04	5.375	A	99.5200	5.46	-	-0.20	+0.41
Finland FRN	09/02	3.820	AA	100.7462	4.39	+0.01	-0.23	-0.42
■ EURO FFR								
Austria	01/04	5.500	AAA	102.3300	5.04	-	-0.32	-0.02
Abbey Nat	02/04	6.000	AA	104.2900	5.17	+0.01	+0.22	+0.15
Cred Foncier	02/04	9.125	A	118.7600	5.46	-	-0.27	+0.44
3CIF FRN	12/01	3.750	AA-	99.8602	4.53	+0.01	-0.24	-0.17
■ EURO LIRA								
EIB	02/07	7.000	AAA	109.9500	5.58	-	-0.45	-0.08
Abbey Nat	02/02	6.800	AA	105.1800	5.37	-0.03	-0.31	+0.15
Walt Disney	06/00	8.625	A	107.6500	5.27	-0.09	-0.40	-0.32
EIB FRN	03/01	5.625	AAA	100.2745	4.85	+0.04	-0.25	-0.24
■ EURO £								
EIB	12/07	7.625	AAA	107.6773	6.55	-0.02	-0.48	-0.29
Dresdner Bk	12/07	7.750	AA-	105.1038	7.02	-0.02	-0.42	+0.76
British Gas	03/00	7.625	A+	100.4673	7.37	-0.02	-0.16	-0.64
Abbey Nat FRN	02/02	7.830	AA	100.0348	6.50	-0.02	-0.37	-0.02
■ EURO $								
EIB	04/07	7.250	AAA	107.8178	6.12	-	-0.17	+0.38
ABN Amro	08/07	7.125	AA-	104.3068	6.51	+0.05	-0.09	-0.77
Quebec	01/07	7.000	A+	103.8066	6.44	-0.02	-0.14	-0.70
Citicorp FRN	02/04	5.938	A+	98.6255	6.01	+0.01	-0.16	+0.29
■ EURO C$								
Bayer L-Bk	08/04	8.500	AAA	116.6762	6.00	-	-0.40	-0.23
Toronto	05/04	8.500	AA+	113.8267	5.85	-0.07	+0.28	+0.08
Bell Canada	07/99	10.625	A+	107.4189	5.53	-0.01	+0.70	-0.14
Deutsche B FRN	09/02	5.876	AAA	101.6400	5.48	-0.09	+0.16	-0.18
■ EURO YEN								
World Bank	03/02	5.250	AAA	117.2700	1.08	-	+0.05	-
Spain	03/02	5.750	AA	119.1500	1.12	-	-	-0.04
Cred Foncier	09/02	4.750	A	114.1204	1.57	-0.01	+0.05	-0.49
Italy FRN	07/99	0.594	AA	100.3584	0.33	-0.03	-0.13	-0.16

London closing. Source: Interactive Data/FT Information. Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Mon Dec 15	Day's change %	Fri Dec 12	Accrued interest	xd adj. ytd
1 Up to 5 years (19)	119.67	0.07	119.58	1.97	10.39
2 5-15 years (21)	158.95	0.11	158.78	1.90	11.66
3 Over 15 years (4)	192.65	0.13	192.40	1.33	14.12
4 Irredeemables (4)	236.67	0.06	236.50	1.79	14.46
5 All stocks (48)	151.68	0.10	151.53	1.89	11.88
Index-linked					
6 Up to 5 years (2)	212.79	0.04	212.70	1.26	8.06
7 Over 5 years (10)	218.92	0.10	218.70	1.64	5.76
8 All stocks (12)	217.20	0.10	216.89	1.60	5.76

UK Indices

	Low coupon yield Dec 15	Dec 12	Yr. ago	Medium coupon yield Dec 15	Dec 12	Yr. ago	High coupon yield Dec 15	Dec 12	Yr. ago
5 yrs	6.46	6.48	7.28	6.55	6.57	7.33	6.59	6.62	7.38
15 yrs	6.25	5.26	7.76	6.25	6.27	7.75	6.36	6.37	7.69
20 yrs	6.25	6.26	7.82	6.23	6.24	7.79	6.36	6.36	7.70
Irred.†	6.35	6.36	7.86						

	Inflation 5% Dec 15	Dec 12	Yr. ago	Inflation 10% Dec 15	Dec 12	Yr. ago
Up to 5 yrs	2.95	2.96	3.17	2.18	2.17	2.45
Over 5 yrs	2.96	2.96	3.55	2.74	2.74	3.33

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Dec 15	Dec 12	Dec 11	Dec 10	Dec 9	Yr ago	High*	Low*
Govt. Secs. (UK)	101.81	101.74	101.72	100.98	100.80	94.04	101.83	93.31
Fixed Interest	134.46	134.41	134.39	133.20	132.98	116.30	133.54	115.32

 * for 1997. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts* (Lives up to Five Years)							
Treas 4⅝pc 1998‡‡		3.99	6.85	116⅞	---	116⅞	113[illegible]
Exch 9¾pc 1998		9.73	7.18	100⅛	---	103¼	100⅛
Treas 7¼pc 1998‡‡		7.25	7.21	100	-⅛	101⅛	100
Treas 15½pc '98‡‡		14.60	7.41	106⅛	---	114⅛	106⅛
Exch 12pc 1998		11.51	7.21	104¼	---	109⅞	104¼
Treas 9½pc 1999‡‡		9.38	7.10	102[illegible]	+1/32	105⅛	102[illegible]
Treas Flg Rate 1999‡‡		-	-	100¼	---	100⅛	100⅛
Exch 12¼pc 1999		11.53	7.05	106¼	+1/32	111⅛	106⅛
Treas 10½pc 1999		10.03	6.98	104⅞	---	108⅞	104½
Treas 6pc 1999‡‡		6.08	6.85	98[illegible]	+1/32	99⅛	96[illegible]
Conv 10¼pc 1999		9.68	6.93	105[illegible]	---	109⅛	105[illegible]
[illegible]							
Treas 8½pc 2000	☆	8.24	6.82	103⅛	+1/32	104⅛	102[illegible]
Conv 9pc 2000‡‡		8.62	6.85	104[illegible]	+1/32	106½	103[illegible]
Treas 13pc 2000		11.38	6.87	114⅛	+1/32	119⅛	113⅝
Treas 14pc 1998-1		13.61	7.26	102[illegible]	---	110¼	102[illegible]
Treas 8pc 2000‡‡		7.74	6.72	103[illegible]	+1/32	104[illegible]	102⅛
Treas Flg Rate 2001		-	-	100⅛	---	100⅛	100⅛
Treas 10pc 2001		9.17	6.77	109⅛	+1/32	112[illegible]	98[illegible]
Conv 9¾pc 2001‡‡	☆	8.76	6.81	108[illegible]	+1/32	109[illegible]	107[illegible]
Conv 9¾pc 2001	☆	8.92	6.86	109[illegible]	+1/32	110[illegible]	108⅛
Treas 7pc 2001‡‡		6.91	6.67	101⅛	+1/32	101[illegible]	98⅛
Treas 10pc 2003		0.59	6.50	116[illegible]	+1/32	117¼	111⅞
Treas 11¾pc 2001-4		10.12	6.78	113⅞	+1/32	116[illegible]	112⅛
Treas 10pc 2004	☆	8.48	6.52	117[illegible]	+1/32	119¼	113
Funding 3½pc 1999-4		3.88	5.25	90[illegible]	+1/32	90[illegible]	82[illegible]
Conv 9½pc 2004		6.14	6.43	116¼	+1/32	118⅛	109[illegible]
Treas 6¾pc 2004‡‡		6.62	6.39	101[illegible]	+1/32	102[illegible]	94⅞
Conv 9½pc 2005		8.07	6.35	117[illegible]	+1/32	122[illegible]	110[illegible]
Exch 10½pc 2005	☆	8.44	6.44	124[illegible]	+1/32	125[illegible]	117⅛
Treas 12½pc 2003-5		9.69	6.53	129[illegible]	+1/32	130[illegible]	124[illegible]
Treas 8½pc 2005‡‡		7.51	6.36	113⅛	+1/32	114¼	104[illegible]
Conv 9¾pc 2006	☆	7.93	6.33	123	+1/32	123[illegible]	113[illegible]
Treas 7¾pc 2006‡‡		6.95	6.32	107[illegible]	+1/32	108[illegible]	98⅛
Treas 7¾pc 2006‡‡		7.10	6.35	109⅛	+1/32	110⅛	99[illegible]
Treas 8pc 2002-6‡‡		7.56	6.63	105½	+1/32	106⅛	100[illegible]
Treas 11¾pc 2003-7		9.63	6.57	122⅛	+1/32	123[illegible]	115¼
Treas 8½pc 2007‡‡		7.37	6.34	115⅛	+1/32	116⅛	105⅛
Treas 7¼pc 2007‡‡		6.76	6.26	107¼	+1/32	107⅞	96⅞
Treas 13½pc 2004-8	☆	10.01	6.62	134[illegible]	+1/32	136[illegible]	131⅞
Treas 9pc 2008‡‡		7.40	6.22	121[illegible]	+1/32	121¼	108[illegible]
Treas 8pc 2009		7.08	6.26	114⅛	+1/32	114⅞	101
Treas 6¼pc 2010‡‡		6.27	6.26	99[illegible]	+1/32	99[illegible]	86¼
Conv 9pc Ln 2011‡‡		7.23	6.29	124[illegible]	+1/32	124⅛	109⅞
Treas 9pc 2012‡‡		7.17	6.30	125[illegible]	+1/32	125[illegible]	109⅞
Treas 5½pc 2008-12‡‡		5.87	6.10	93[illegible]	+1/32	93[illegible]	80[illegible]
Treas 7¾pc 2012-15‡‡		6.86	6.38	113	+1/32	113	98[illegible]
Over Fifteen Years							
Treas 8pc 2013‡‡		6.85	6.30	118[illegible]	+1/32	116[illegible]	100[illegible]
[illegible]							

Index-Linked	Notes (b)	Yield (1)	Yield (2)	Price £	+ or -	52 week High	52 week Low
2½pc '99	☆	2.23	2.84	188⅝	+1/32	189⅝	179⅛
2½pc '01	(78.3)	2.94	3.27	194[illegible]	+1/32	194[illegible]	184⅛
2½pc '03	(78.8)	2.94	3.17	192[illegible]	+1/32	192[illegible]	180[illegible]
4⅝pc '04‡‡	(135.6)	2.92	3.11	124[illegible]	+1/32	124[illegible]	117[illegible]
2pc '06	(69.5)	2.96	3.10	209[illegible]	+1/32	209[illegible]	190
2½pc '09	(78.8)	2.94	3.05	188[illegible]	+1/32	188[illegible]	170[illegible]
2½pc '11	(74.6)	2.95	3.05	197⅛	+1/32	197⅛	176⅛
2½pc '13	(89.2)	2.94	3.03	164⅛	+1/32	164⅛	144[illegible]
2½pc '16	(81.6)	2.94	3.03	177[illegible]	+1/32	177[illegible]	153[illegible]
2½pc '20	(83.0)	2.97	3.04	172[illegible]	+1/32	172[illegible]	147⅛
2½pc '24‡‡	(97.7)	2.97	3.03	145⅛	+1/32	145⅛	122⅛
4⅛pc '30‡‡	(135.1)	2.95	3.01	142⅛	+1/32	142⅛	119[illegible]

Prospective real redemption rate on projected inflation of (1) 5% and (2) 3%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for April 1987: 156.3 and for November 1997: 159.6.

Other Fixed Interest

[illegible]

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real Index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices. ☆ Indicative price.

CURRENCIES AND MONEY

OECD's gloomy forecast hits sterling

MARKETS REPORT

By Simon Kuper and Wolfgang Münchau

The pound plunged yesterday as fears of a UK economic slowdown were heightened by the Organisation for Economic Co-operation and Development.

The OECD said in its twice-yearly report that UK economic growth would slow to just over 2 per cent next year, due to interest rate rises, the strong pound, and tight fiscal policy.

Many in the market had already drawn a similar conclusion from recent tame economic data.

But the OECD's report helped prompt end-of-year profit taking on the pound. Sterling, which had been falling for most of December, lost another 3.9 pfennigs against the D-Mark and 1.9 cents against the dollar to close in London at DM2.891 and $1.633.

The yen fell after the Bank of Japan's quarterly tankan survey of business confidence emerged even worse than expected. The diffusion index for large manufacturers fell to -11, the first negative reading for a year, compared with a consensus forecast of -3. Sentiment among non-manufacturers hit -20, from -15 in September.

Rob Hayward, senior economist at Bank of America in London, said: "The Japanese economy is not just struggling. It is probably contracting again."

Traders bought the dollar with caution, because today Japan is due to announce measures to boost its stricken banks and stagnant economy. However, Marc Chandler, senior currency economist at Deutsche Morgan Grenfell in New York, warned: "A Y10,000bn bond issue for the banks has already been discounted." The yen closed Y0.5 lower against the dollar at Y130.8.

South Korea said it would float the won today. For the last few days the currency has been allowed to rise or fall 10 per cent a day, and it has hit its lower limit several times. Most currency strategists welcomed the floating of the won, saying that the 10 per cent band had offered traders a target.

The won rose to 1,563.9 against the dollar yesterday, after the Korean current account unexpectedly moved into surplus and the Bank of Korea intervened heavily. The Korean President Kim Young-sam and the main candidates for Thursday's presidential election had soothed some market doubts on Saturday, by pledging to stick to the conditions of the $57bn rescue package brokered for Korea this month by the International Monetary Fund.

■ The D-Mark, pushed in opposing directions by two late German comments, barely budged at all. Speaking just before the London close, Theo Waigel, German finance minister, said the dollar would have a "real competitor" when the euro arrived. But then Ernst Welteke, Bundesbank council member, cheered dollar bulls by saying that the US currency's recent rise was no threat to German prices. In late New York trading the dollar stood at DM1.773, barely changed from Friday.

■ The Bank of Spain cut its money market rate by 25 basis points to 4.75 per cent, as European interest rates continued to converge ahead of monetary union. The market had been expecting rate cuts from southern European countries, but nonetheless the peseta fell slightly yesterday to Pta84.66 against the D-Mark.

■ The OECD has made some intriguing calculations about the economic effects of a hypothetical 10 per cent appreciation of the euro against other currencies.

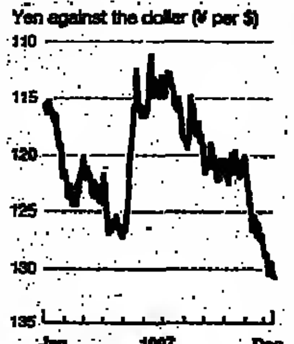
This is a realistic assumption, since foreign exchange strategists expect the euro's exchange rate against the dollar to be volatile at the start of economic and monetary union. Some predict the euro will rise sharply if it becomes a leading reserve currency.

If the euro rose 10 per cent against a basket of currencies, the economic effects would be worst for Ireland, where annual economic growth rates would be cut by 1.7 percentage points. Germany would lose a serious 1.0 per cent a year from 2000 to 2002, while Portugal and Spain would be least affected, the OECD says.

Its analysis highlights that economic shocks could create significant asymmetric shocks in the Emu area.

Japan

Yen against the dollar (¥ per $)



Source: Datastream/ICV

■ **Pound in New York**

Dec 15	—Latest—	— Prev. close —
£ spot	1.6335	1.6510
1 mth	1.6310	1.6488
3 mth	1.6264	1.6440
1 yr	1.6073	1.6248

■ **OTHER CURRENCIES**

Dec 15	£		$	
Czech Rp	56.5220	56.6220	34.6230	34.6630
Hungary	327.822	328.105	200.810	200.860
Iran	4900.50	4897.50	3000.00	3000.00
Kuwait	0.4976	0.4984	0.3048	0.3051
Poland	5.7913	5.7989	3.5475	3.5500
Russia	9680.73	9689.92	5930.00	5932.00
U.A.E.	5.9958	5.9998	3.6728	3.6730

POUND SPOT FORWARD AGAINST THE POUND

Dec 15		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.3371	-0.2754	254 - 488	20.6531	20.3071	20.2676	4.1	20.1484	3.7	19.6807	3.3	102.8
Belgium	(BFr)	60.1271	-0.3435	760 - 781	60.5550	59.5680	59.9022	4.5	59.5468	3.8	58.076	3.4	102.4
Denmark	(DKr)	11.0130	-0.1457	079 - 181	11.1829	10.9963	10.9754	4.1	10.9141	3.6	10.6729	3.1	104.7
Finland	(FM)	8.7260	-0.1048	184 - 335	8.8600	8.7080	8.6915	4.8	8.6388	4.0	8.4355	3.3	91.3
France	(FFr)	9.6806	-0.1318	755 - 857	9.8295	9.6667	9.6447	4.5	9.5865	3.9	9.3443	3.5	105.8

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 15		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J P Morgan index
Europe													
Austria	(Sch)	12.4530	-0.0219	505 - 572	12.5190	12.4390	12.4298	2.3	12.3919	2.0	12.2364	1.7	102.5
Belgium	(BFr)	36.8200	+0.22	000 - 400	36.8400	36.4880	36.7368	2.7	36.623	2.1	36.145	1.8	102.2
Denmark	(DKr)	6.7441	-0.0097	430 - 451	6.7775	6.7371	6.7311	2.3	6.7126	1.9	6.6426	1.5	104.0
Finland	(FM)	5.3435	-0.0014	405 - 465	5.3721	5.3385	5.3302	3.0	5.313	2.3	5.25	1.7	80.8
France	(FFr)	5.9281	-0.0109	268 - 294	5.9690	5.9216	5.9148	2.7	5.896	2.2	5.8156	1.9	105.2

WORLD INTEREST RATES

MONEY RATES

December 15	Over night	One month	Three mths	Six mths	One year	Lomb. inter	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.60	-	3.30
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	6	[illegible]	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.75	6.25	6.17
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.75	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	6	-	-	-
US Dollar CDs	-	5.00	5.26	5.39	5.54	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo-Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9225	0.04	0.20	0.34	0	0.09	0.12
9250	0	0.06	0.19	0.21	0.20	0.22
9275	0	0.01	0.09	0.46	0.40	0.37

Est. vol. total, Calls 5401 Puts 1472. Previous day's open int., Calls 249780 Puts 281762

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	●Smith & Williamson	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	Sun Banking Corp Ltd	7.25
Banco Bilbao Vizcaya	7.25	●Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	C. Hoare & Co	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.25		
●Brown Shipley & Co Ltd	7.25	Julian Hodge Bank	7.25		
Citibank NA	7.25	●Leopold Joseph & Sons	7.25		
Clydesdale Bank	7.25	Lloyds Bank	7.25		
The Co-operative Bank	7.25	Midland Bank	7.25		
Coutts & Co	7.25	NatWestminster	7.25		
Cyprus Popular Bank	7.25	●Rea Brothers	7.25		
Duncan Lawrie	7.25	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.25		

● Members of London Investment Banking Association
* In administration

COMMODITIES AND AGRICULTURE

Oil price expected to depend on Saudi output

By Robert Corzine

The level of Saudi Arabian oil production next year has emerged as one of the main factors that will influence world oil prices in 1998.

A report published yesterday by the London-based Centre for Global Energy Studies, an oil industry think-tank, predicted that the price of oil in 1998 "will depend crucially on the Kingdom's output stance".

The Centre said the big question is: "Will Saudi Arabia insist on producing up to its quota ceiling come what may, or will it trim its output to prevent prices from crashing?"

Saudi Arabia will be able to boost its output from 8m barrels a day to 8.7m b/d on January 1, as a result of the recent decision by the Organisation of Petroleum Exporting Countries to boost output by 10 per cent to 27.5m barrels a day.

The Centre predicted that oil prices could fall below $16 a barrel in the second quarter of next year if Opec output rises to an average level of 28.5m barrels a day, which the report says would be possible if all Opec member states "increased their output as planned and if Iraqi oil flows without interruptions".

Saudi Arabia, the world's biggest oil exporter, has consistently rejected the role of swing producer, but it has relatively little financial room to manoeuvre, according to research from the Oxford Institute for Energy Studies, another industry think-tank. It suggests that Saudi Arabia could find its finances undermined by a relatively small slide in average oil prices next year.

Robert Mabro, director of the Institute, estimates that it would take only a $1.65 fall in average oil prices in 1998 for Saudi Arabia to reap no financial benefit from its increased output. Any bigger fall would result in lower export earnings.

World oil prices have fallen steadily since the Opec meeting at the end of November. The price of Brent Blend for January delivery, the international bellwether, was around $19 a barrel the day before the Opec decision was taken, but it has since fallen to about $17.45 a barrel. The decline has largely been attributed to the bearish implications of the production rise. The average Brent price so far this year has been $19.26.

Navan offers Bulgarian mine a new lease of life

Money and new technology have raised fresh hopes for Chelopech and the Pirdop smelter

When arsenic spilled from the Pirdop smelter, located on the southern flank of the Balkan mountain range in Bulgaria, into the local river system it seemed that the nearby Chelopech mine, which supplied the smelter, would be killed off.

A government decree stopped Pirdop from treating any more arsenic polluted material from Chelopech and the mine closed with the loss of 1,400 jobs.

That was in 1992. Now Chelopech, located 70km east of Sofia, has been brought back to life by Navan Resources, a small international mining company.

Chelopech's recent history provides a typical example of how foreign capital is revitalising parts of the mining industry in east European countries.

These countries are still very reluctant to hand over control of their mines to foreign investors, but under extreme duress they will cede ownership. The Chelopech example is also typical in that Navan was offering two things often in short supply in east Europe: money and modern technology.

In turn, Chelopech fits Navan's strategy – it wants to buy into established European projects at low cost when it feels potential has not been fully achieved.

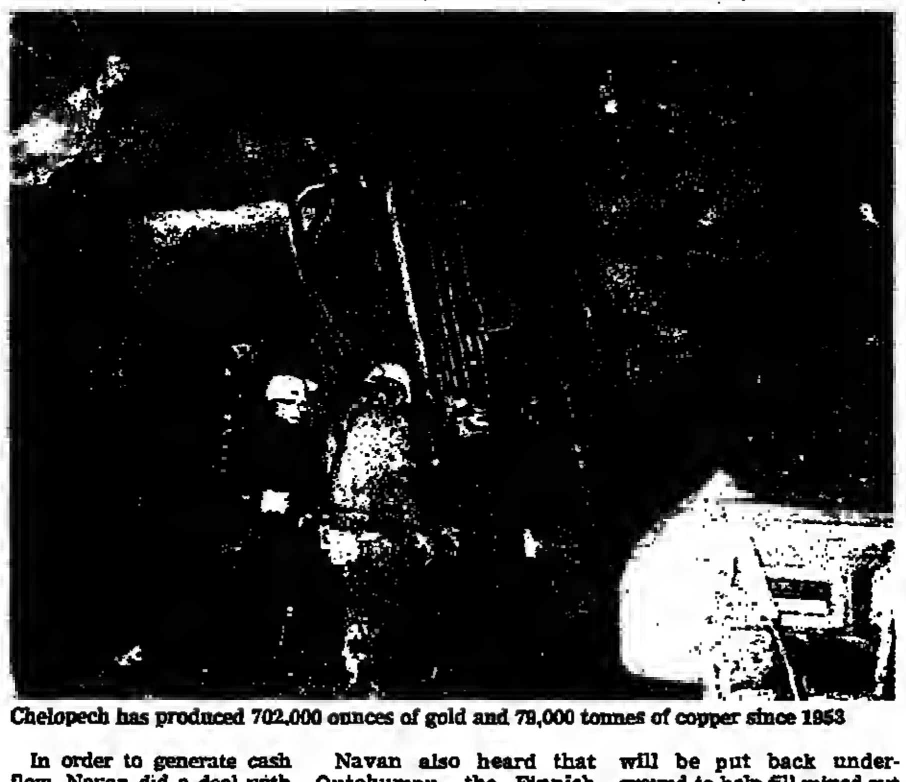
Navan said it could solve Chelopech's arsenic problem, rehabilitate and re-start production at the underground mine that had produced 702,000 ounces of gold and 79,000 tonnes of copper since it started up in 1953.

In return, the Bulgarian government eventually gave Navan 68 per cent of the Chelopech operating company, called Bimak (or Bulgarian Irish Mining Company), the first shareholder company to be established in Bulgaria.

Since early in 1994 Navan has spent $24m at Chelopech, replacing underground equipment that was built in the 1950s by Russians who had "borrowed" Swedish designs. The mill was also completely rebuilt.

Chelopech employs 772 people, which seems high for its output – it aims for 57,750 ounces of gold and 5,522 tonnes of copper this year, up from 56,604 ounces and 4,939 tonnes in 1996. However, Colin Andrew, Navan executive director responsible for eastern Europe, says the total includes many service people who in the west would be employed by outside contractors.

No unions are represented at the mining complex and people are on three, six or 12-month contracts. Underground miners are paid about $500 a month compared with Bulgaria's minimum wage of $70.



Chelopech has produced 702,000 ounces of gold and 79,000 tonnes of copper since 1953

In order to generate cash flow, Navan did a deal with Noranda's Horne smelter in Canada, one of the few smelters that can cope with concentrate (the intermediate material produced by Chelopech) with a high arsenic content.

The Chelopech concentrate contains between 1 per cent and 3 per cent arsenic. Horne will take Chelopech's material until 2000.

Navan also heard that Outokumpu, the Finnish mining and metals group, was closing down a roaster at its Harjavalta complex which had been used to remove arsenic from concentrates. Navan arranged to buy the roaster for $20m.

The Outokumpu roaster uses a high temperature to remove the arsenic from the concentrate. It is recovered in a non-toxic material that will be put back underground to help fill mined-out areas.

Navan wants to increase output from the mine and is using the capacity of the roaster as the starting point. This means it could more than double output by 2002 to 147,200 ounces of gold and 16,500 tonnes of copper in concentrate. The cost will be about $100m, including $40m to deepen the mine.

Navan will have to find none of this. To start with, it has found a "big brother" to become its partner in Chelopech. In 1992, Homestake Mining, the US group that is one of the world's biggest gold producers, read about Navan and Chelopech in Mining Journal. Homestake is keen to increase its gold reserves and was attracted by the fact that Chelopech has one of the biggest gold reserves in Europe, more than 5m ounces.

Homestake's policy is to ease its way very gently into eastern Europe by taking small stakes to begin with and spending substantial sums only when it is satisfied with first experiences.

It likes what it sees at Chelopech and in September agreed to invest $30m in the expansion and provide a $10m stand-by loan facility.

Homestake has already paid $12m for a 10.5 per cent stake in Navan and, as part of the expansion money, handed over a further $12m last month for 20 per cent of Chelopech.

Once the expansion cash has been spent, Homestake will own 51 per cent of Chelopech and will have the right to operate the mine.

Much of the rest of the money will come from the European Bank for Reconstruction and Development, which is willing to provide up to $40m towards the expansion.

There are some outstanding issues to be settled before work on Chelopech's expansion can start. Final approvals for the roaster are still awaited.

The government also has to change the laws about mineral rights and to sell its 32 per cent stake in Chelopech to the foreign partners.

The change of government earlier this year, when the Communists were replaced by the pro-reform Union of Democratic Forces coalition, is speeding up the privatisation process.

Mr Andrew is one of six private sector business people co-opted to advise the government on its privatisation programme.

Bulgaria in September privatised the Pirdop smelter by passing 56 per cent to Union Minière of Belgium, which agreed to spend $220m to modernise the plant and to clean up the pollution it has caused over the years.

Mr Andrew says it would be mutually advantageous for Chelopech and UM if Pirdop started to process the mine's concentrate again, once it is free of arsenic.

On the Chelopech side, this would save $65 a tonne transport costs to the Canadian smelter. Moving the material to Pirdop would cost only $2 to $3 a tonne.

Friendly discussions with UM have already begun.

Kenneth Gooding

Mexican frost lifts coffee futures

MARKETS REPORT

By Vincent Boland and Robert Corzine

Reports that a severe frost crippling parts of Mexico was touching the fringes of the country's coffee-growing region sent coffee futures higher initially in London but prices eased in late trading.

On the London International Financial Futures and Options Exchange trading was brisk, with the March contract hitting $1,870 a tonne, but an afternoon sell-off saw the future end just $33 a tonne higher on the day at $1,810 a tonne.

On the New York Cotton, Sugar and Cocoa Exchange the March future was up 4.10 cents to 184 cents a pound at midday, damping hopes of a jump through last week's high of 188.50 cents.

Cocoa prices were firmer in thin trading. The Liffe March future rose £7 to £1,148 a tonne, with buying sparked mainly by sterling weakness.

Crude oil prices made modest gains yesterday but bearish sentiment remained widespread. Brent Blend for January delivery was quoted at $17.43 a barrel in late trading on London's International Petroleum Exchange, up 12 cents on Friday's close.

Reports from Baghdad that Iraq was maintaining its tough stance on allowing United Nations arms inspectors access to presidential sites had little impact on oil markets.

The future of Iraqi oil exports under the UN oil-for-food programme has been one of the main factors influencing recent prices, and any sign of a re-emergence of the recent confrontation between Iraq and the UN and US would generally be seen as bullish.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1514-15	1540-41
Previous	1542.5-3.5	1567-8
High/low		1562/1523
AM Official	1526.5-27	1553.5-54
Kerb close		1523.5-24.5
Open int.	264,193	
Total daily turnover	174,086	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1388-93	1410-13
Previous	1400-10	1425-30
High/low		1420/1400
AM Official	1399-400	1420-21
Kerb close		1370-75
Open int.	6,183	
Total daily turnover	1,942	

■ LEAD ($ per tonne)

Close	516-17	530-31
Previous	520-2	535-6
High/low		536/525
AM Official	512-2.5	529-30
Kerb close		528-29
Open int.	33,886	
Total daily turnover	12,104	

■ NICKEL ($ per tonne)

Close	5935-45	6035-40
Previous	6160-70	6255-60
High/low		6230/5950
AM Official	5870-75	5965-70
Kerb close		6050-60
Open int.	60,402	
Total daily turnover	37,929	

■ TIN ($ per tonne)

Close	5355-65	5275-80
Previous	5530-40	5440-50
High/low		5400/5250
AM Official	5385-95	5345-50
Kerb close		5270-80
Open int.	16,049	
Total daily turnover	8,155	

■ ZINC, special high grade ($ per tonne)

Close	1098-99	1123-24
Previous	1124-5	1146-7
High/low		1139/1122
AM Official	1090-90.5	1123-24
Kerb close		1123-24
Open int.	82,785	
Total daily turnover	40,665	

■ COPPER, grade A ($ per tonne)

Close	1751-52	1780-81
Previous	1794.5-5.5	1824-5
High/low		1823/1752
AM Official	1758-59	1792-93
Kerb close		1761-62
Open int.	160,861	
Total daily turnover	98,463	

■ LME AM Official £/$ rate: 1.6363
LME Closing £/$ rate: 1.6330

Spot: 1.6343 3 mths: 1.6274 6 mths: 1.6200 9 mths: 1.6136

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	79.00	-1.30	79.60	78.50	011	1,285
Jan	79.30	-1.55	79.80	78.70	428	3,172
Feb	79.80	-1.60	80.00	79.80	136	1,905
Mar	80.30	-1.80	82.00	79.60	5,140	33,590
Apr	80.95	-1.55	81.30	80.95	30	1,484
May	81.30	-1.80	81.90	80.80	236	4,927
Total					6,986	66,486

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	285.20-285.70		
Opening	283.20-283.60		
Morning fix	283.20	172.820	406.902
Afternoon fix	283.60	173.551	405.690
Day's High	286.20-286.60		
Day's Low	282.90-283.30		
Previous close	282.30-282.00		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.27	6 months	4.23
2 months	4.23	12 months	4.19
3 months	4.22		

Silver Fix	p/troy oz.	US cts equiv.
Spot	360.95	590.00
3 months	365.05	595.25
6 months	364.85	593.25
1 year	364.35	586.95

Gold Coins	$ price	£ equiv.
Krugerrand	282.5-284.5	173-174
Maple Leaf	-	-
New Sovereign	66-60	40-42

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	284.5	+1.7	285.8	283.5	31	550
Jan	285.2	+1.6	283.2	-	5	2
Feb	286.4	+1.6	286.4	284.5	18,644	109k
Apr	288.1	+1.6	290.2	288.1	698	12,217
Jun	290.1	+1.6	292.0	289.3	227	11,216
Aug	292.2	+1.6	293.0	291.5	64	3,260
Total					20,141	192,758

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jan	352.8	-8.2	357.5	350.5	1,640	9,813
Apr	351.8	-7.4	357.0	350.5	364	3,950
Jul	352.0	-4.2	356.8	349.0	22	165
Total					2,036	13,930

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Dec	193.00	-8.25	197.00	193.00	35	264
Mar	191.00	-8.25	194.00	190.75	986	3,576
Jun	189.75	-8.25	190.00	189.00	78	239
Sep	185.75	-8.25	-	202.00	-	4
Total					1,099	4,083

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Dec	586.5	+2.3	592.0	585.5	121	677
Jan	588.0	+2.3	587.0	587.0	3	33
Mar	590.5	+2.7	604.5	588.5	13,059	67,295
May	593.3	+2.5	596.0	589.0	137	6,328
Jul	598.0	+2.2	593.0	590.0	16	6,542
Total					13,722	92,244

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	18.22	+0.01	18.33	18.12	32,360	90,250
Feb	18.42	-0.04	18.50	18.34	25,306	82,279
Apr	18.79	-0.02	18.60	18.73	3,118	24,209
May	18.52	-0.03	18.94	18.89	1,786	19,571
Jun	18.60	-0.02	19.03	18.96	1,236	34,834
Total					74,388	449,818

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	17.37	+0.06	17.49	17.34	12,742	33,061
Feb	17.49	-0.04	17.58	17.45	13,464	74,207
Mar	17.59	+0.03	17.64	17.54	4,087	30,469
Apr	17.64	+0.03	17.72	17.62	2,234	14,302
May	17.75	+0.10	17.77	17.67	700	11,654
Jun	17.78	+0.00	17.77	17.72	778	[illegible]
Total					[illegible]	[illegible]

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	51.75	-0.07	52.15	51.52	11,165	46,564
Feb	52.55	-0.07	52.75	52.30	3,045	17,001
Mar	52.90	-0.07	52.20	51.90	999	[illegible]
Apr	51.65	-0.12	51.75	51.40	1,305	7,895
May	51.50	-0.12	51.70	51.30	7,161	-
Total					24,441	148,385

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	160.50	-1.00	162.00	160.25	4,583	21,863
Feb	161.25	-1.00	162.25	161.25	2,254	14,529
Mar	161.50	-1.00	162.00	161.50	463	12,078
Apr	162.00	-0.75	162.00	161.50	35	5,131
May	161.75	-0.75	162.25	161.75	149	3,171
Jun	161.50	-0.75	161.75	161.50	52	-
Total					7,460	71,887

■ NATURAL GAS IPE (1,000 therms/day; pence/therm)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	17.370	+0.330	17.250	17.050	135	4,080
Feb	17.560	+0.320	17.600	17.450	30	3,300
Total					[illegible]	[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	2.230	-0.077	2.300	2.260	12,260	44,869
Feb	2.255	-0.064	2.270	2.250	5,873	34,055
Mar	2.230	-0.047	2.235	2.205	1,538	22,026
Apr	2.160	-0.025	2.160	2.145	301	9,325
May	2.160	-0.017	2.160	2.150	608	8,841
Total					28,728	217,381

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	54.80	+0.70	55.10	54.60	7,998	29,344
Feb	55.35	+0.18	55.60	55.10	5,241	23,249
Apr	58.65	-	55.65	58.40	2,543	10,746
May	58.50	+0.18	58.75	58.25	1,578	10,936
Jun	58.30	+0.43	58.30	58.00	586	7,621
Total					23,307	119,910

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	83.00	+1.25	83.00	82.25	78	754
Mar	85.00	+1.00	85.25	84.25	70	2,631
May	87.00	+1.00	87.25	86.25	256	3,736
Jul	88.00	+1.00	88.50	88.50	30	473
Sep	82.25	+0.50	-	82.50	-	23
Total					468	[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Dec	329.00	-1.75	331.50	327.00	157	254
Mar	342.50	-1.75	345.00	340.75	18,444	54,517
May	349.50	-2.75	353.00	342.50	2,608	11,487
Jul	355.50	-2.50	357.50	353.00	2,925	19,654
Sep	363.00	-3.00	365.00	358.00	35	481
Dec	368.50	-2.50	371.00	368.00	747	3,159
Total					24,991	89,660

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Dec	259.75	-1.75	261.50	258.25	6,895	6,476
Mar	271.75	-1.50	274.00	271.00	51,093	161,861
May	279.00	-1.75	280.50	278.50	8,492	45,759
Jul	284.50	-1.75	286.25	284.00	6,655	56,891
Sep	280.50	-2.50	282.50	280.50	540	5,544
Dec	281.75	-2.25	283.25	281.25	3,686	33,099
Total					78,828	221,586

■ BARLEY LIFFE (100 tonnes; £ per tonne)

Jan	76.00	-0.60	76.00	75.40	54	293
Mar	78.00	+0.60	78.00	78.20	41	1,486
May	79.75	+0.60	79.00	79.00	-	20
Sep	79.25	-0.25	-	-	-	5
Nov	81.25	+0.25	81.25	81.25	10	65
Total					105	1,798

■ SOYABEANS CBT (5,000 bu min; cents/60lb bushel)

Jan	688.75	-1.50	692.00	683.50	41,661	58,511
Mar	689.00	-2.25	691.25	683.50	17,891	35,887
May	692.75	-2.00	694.75	688.00	4,283	23,228
Jul	692.00	-2.50	697.00	691.50	4,132	25,276
Aug	692.00	-1.25	693.00	690.00	288	3,032
Sep	673.50	-2.50	674.50	674.00	20	175
Total					70,005	152,179

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Dec	24.53	+0.21	24.53	24.20	380	670
Jan	24.68	+0.19	24.78	24.33	11,897	35,349
Mar	25.04	+0.23	25.11	24.70	11,172	38,352
May	25.21	+0.10	25.25	24.90	3,583	14,480
Jul	25.32	+0.18	25.38	25.05	3,234	11,687
Aug	25.32	+0.09	25.25	25.10	345	3,268
Total					31,811	104,288

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Dec	217.1	-2.5	219.0	217.1	6,945	7,022
Jan	213.1	-3.2	215.3	211.5	13,380	27,633
Mar	208.0	-3.4	212.7	208.2	8,395	35,315
May	206.7	-3.1	210.0	206.3	3,305	21,969
Jul	207.2	-2.0	209.0	207.0	1,093	15,099
Aug	207.5	-2.0	209.0	207.0	341	4,225
Total					36,430	111,003

■ POTATOES LIFFE (20 tonnes; £ per tonne)

Mar	91.0	-	-	-	-	-
Apr	113.5	-	114.0	111.0	22	1,044
May	123.5	-	-	-	-	30
Jun	133.5	-	-	-	-	4
Nov	58.0	-	-	-	-	3
Total					22	1,135

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Dec	1270	-25	1285	1270	15	186
Jan	1335	-45	1240	1205	35	790
Feb	1210	-25	1276	1276	16	56
Mar	1280	-20	1300	1280	59	402
Apr	1180	-	1185	1185	-	121
Total					131	1,921

	Close	Prev
BFI	1288	1287

PULP AND PAPER

■ PULPEX OMLX (USA; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	480.00	-1.25	481.00	480.00	13	373
Jun	500.00	-1.25	501.00	497.00	17	229
Total					30	602

FUTURES DATA
All futures data supplied by CMS.

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

Minor metals from Metal Bulletin. European free market, $ per lb in warehouse (changes in brackets). Antimony: 99.65%, $ per tonne, 1,550-1,630 (1,580-1,660). Bismuth: min. 99.99%, tonne lots 3.20-3.35. Cadmium: min. 99.99%, cents a pound, 35.00-40.00 (30.00-40.00). Cobalt: MB free market, min. 99.8%, 25.25-26.00 (25.25-26.25); min. 99.3%, 18.80-19.50 (19.10-19.60). Mercury: min. 99.99%, $ per 76 lb flask, 140-150. Molybdenum: drummed molybdic oxide, 3.60-3.95. Selenium: min 99.5%, 2.00-3.00. Tungsten ore: standard min. 65%, $ per tonne unit (10kg) WO3, CIF, 40-52. Vanadium: min. 98%, CIF, 4.65-4.85 (4.35-4.50).

INDICES

■ Reuters (Base: 18/9/31 = 100)

Dec 15	Dec 12	month ago	year ago
1783.0	1785.8	1813.0	1865.5

■ CRB Futures (Base: 1967 = 100)

Dec 12	Dec 11	month ago	year ago
235.66	235.69	-	-

■ GSCI Spot (Base: 1970 = 100)

Dec 12	Dec 11	month ago	year ago
181.11	181.71	205.67	212.20

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-4,200	to 639,725
Aluminium alloy	-180	to 41,640
Copper	-2,000	to 335,550
Lead	-350	to 114,200
Nickel	-18	to 65,384
Zinc	-125	to 450,200
Tin	+755	to 10,685

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1119	+9	1118	1118	4	930
Mar	1147	+7	1153	1136	5,361	70,362
May	1165	+7	1170	1156	794	24,941
Jul	1182	+8	1185	1174	315	11,336
Sep	1214	+8	1214	1207	315	23,642
Total					6,828	182,525

■ COCOA CSCE (10 tonnes; $/tonnes)

Dec	1727	-	1590	1590	7	35
Mar	1782	+6	1786	1761	11,832	44,141
May	1788	+5	1790	1746	1,334	20,848
Jul	1808	+5	1808	1772	389	4,718
Sep	1827	+5	1804	1793	44	5,708
Dec	1848	+5	1808	1800	64	9,338
Total					14,724	97,781

■ COCOA (ICCO) (SDR's/tonne)

Dec 12	Price	Prev. day
Daily	1348.67	1333.06

■ COFFEE LIFFE ($ tonnes; $/tonne)

Jan	1810	+33	1875	1810	1,275	10,543
Mar	1812	+35	1870	1810	3,182	25,919
May	1757	+35	1850	1766	740	6,858
Jul	1787	+33	1820	1790	90	1,341
Sep	1787	+33	1815	1815	-	614
Nov	1782	+33	-	-	-	30
Total					5,275	45,205

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Dec	168.40	+5.40	168.00	168.00	167	407
Mar	165.45	+5.55	167.25	162.50	6,447	19,892
May	179.30	+5.45	180.75	177.00	822	5,925
Jul	172.30	+5.25	174.00	168.50	302	2,704
Sep	164.00	+4.25	165.00	160.00	112	1,213
Dec	157.50	+3.50	157.50	155.00	07	1,196
Total					6,881	31,860

■ COFFEE (ICO) (US cents/pound)

Dec 12	Price	Prev. day
Comp. daily	135.43	137.93
15 day average	128.57	125.88

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

Mar	306.2	+0.4	307.0	305.1	432	22,274
May	311.3	+0.2	312.0	311.9	83	8,841
Aug	312.4	-0.1	318.3	315.3	74	4,671
Oct	305.3	-0.1	307.3	305.5	159	4,327
Dec	307.6	-	311.3	311.3	-	753
Total					896	38,822

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Mar	12.17	+0.03	12.22	12.11	7,231	199k
May	12.09	+0.02	12.14	12.06	1,567	33,810
Jul	11.74	-	11.78	11.72	482	28,554
Oct	11.66	-0.01	11.66	11.61	229	24,854
Mar	11.45	-0.03	11.50	11.47	45	6,931
May	11.40	+0.03	11.43	11.41	33	941
Total					10,936	206,888

■ COTTON NYCE (50,000lbs; cents/lbs)

Dec	66.35	-0.57	66.85	65.75	6,880	43,827
Mar	67.75	-0.62	68.30	67.45	1,658	14,671
May	68.15	-0.74	68.75	68.15	1,261	15,226
Jul	70.06	-1.07	71.70	70.00	154	1,375
Oct	71.57	-1.17	72.35	71.75	1,133	11,455
Dec	72.00	-1.04	73.30	73.30	19	342
Total					10,070	87,433

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jan	98.70	+2.45	97.05	97.50	6,680	20,278
Mar	93.15	+2.30	94.40	90.25	4,487	19,438
May	97.00	+2.40	97.35	94.00	374	3,922
Jul	98.15	+2.50	99.60	97.10	577	2,265
Sep	103.00	+2.35	100.00	99.00	226	1,187
Nov	105.00	+2.35	-	-	255	1,310
Total					12,990	48,199

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett. price	Day's change	High	Low	Vol	Open int
Dec	65.450	-0.450	66.000	65.300	3,883	7,782
Feb	65.325	-0.350	65.950	65.150	13,158	51,775
Apr	68.725	-0.500	68.450	68.650	4,401	24,017
Jun	68.275	-0.325	68.900	68.150	2,059	14,812
Aug	68.475	-0.450	70.025	68.450	798	5,788
Oct	71.800	-0.600	72.450	71.800	277	1,381
Total						

■ LEAN HOGS CME (40,000lbs; cents/lbs)

Dec	61.750	-	63.175	62.100	1,128	4,206
Feb	59.875	-0.850	60.325	58.650	5,612	21,393
Apr	57.200	-0.450	57.500	56.950	1,375	8,232
Jun	64.475	-0.475	64.925	64.275	635	4,589
Jul	63.825	-0.300	63.900	63.800	128	1,356
Aug	61.550	-0.225	61.800	61.500	33	239
Total						

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Feb	56.100	-1.000	56.900	55.350	1,598	6,037
Mar	55.175	-0.775	56.350	54.600	176	1,220
May	56.700	-0.950	57.500	55.800	54	1,017
Jul	55.800	-0.900	56.000	55.000	28	571
Aug	52.025	-0.500	52.750	52.500	7	77
Total						

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jan	Apr	Jan	Apr
1500	32	71	22	42
1525	20	58	35	54
1550	12	46	51	67
■ COPPER (Grade A) LME	**Jan**	**Apr**	**Jan**	**Apr**
1750	35	84	38	61
1800	17	61	68	87
1850	7	43	108	110
■ COFFEE LIFFE	**Jan**	**Mar**	**Jan**	**Mar**
1750	76	132	0	70
1800	40	105	22	93
1850	18	84	50	122
■ COCOA LIFFE	**Mar**	**May**	**Mar**	**May**
1100	74	99	27	34
1125	59	84	37	44
1150	47	70	50	55
■ BRENT CRUDE IPE	**Feb**	**Mar**	**Feb**	**Mar**
1700	-	-	28	43
1750	46	-	-	-
1800	30	47	80	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

Dubai	$16.05-6.25	-0.520
Brent Blend (dated)	$16.83-6.89	-0.275
Brent Blend (Jan)	$17.38-7.44	-0.225
W.T.I.	$18.21-8.23w	-0.110

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$181-183	-3
Gas Oil	$161-163	-1.5
Heavy Fuel Oil	$80-82	
Naphtha	$172-173	-1
Jet fuel	$183-185	-1
Diesel	$172-173	-0.5

■ NATURAL GAS (Pence/therm)

Bacton (Jan)	17.35-17.45	+0.45

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

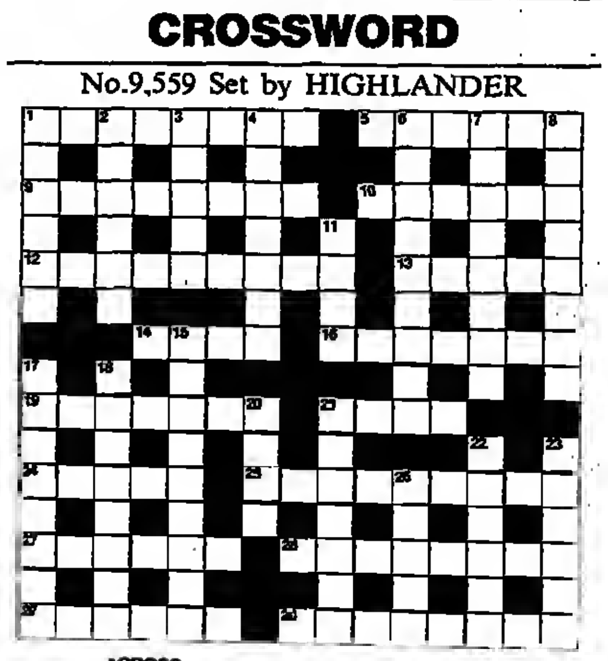
Gold (per troy oz)‡	$285.45	+2.90
Silver (per troy oz)‡	585.75c	+7.25
Platinum (per troy oz.)	$354.00	-7.00
Palladium (per troy oz.)	$194.00	-7.25
Copper	86.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	20.30r	
Tin (New York)	256.5	-3.00
Cattle (live weight)	92.21p	-1.70*
Sheep (live weight)	92.84p	-5.26*
Pigs (live weight)†	80.08p	-0.28*
Lon. day sugar (raw)	$292.30	+1.50
Lon. day sugar (wte)	$296.40	+1.30
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£108.00	
Wheat (US Dark North)	Unq	
Rubber (Dec)¥	54.50p	
Rubber (Jan)¥	54.50p	
Rubber (KL RSS No1)	270.0z	
Coconut Oil (Phil)§	600.0y	+10.0
Palm Oil (Malay.)§	527.5	-2.5
Copra (Phil)§	$397.5	-2.5
Soyabeans (US)	186.0	
Cotton Outlook'A' index	74.60c	
Wooltops (64s Super)	392p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jan/Feb. w Jan. †London Physical. § CIF Rotterdam. ‡ Bullion market close. * Change on week. †Based on 928 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,559 Set by HIGHLANDER



ACROSS
1 Every one of bloody English trapped inside a myth (8)
5 Landed by angler although giving slip to daughter (6)
9 Getting to bottom of water supply system (8)
10 Clear off with last of port wine (6)
12 New ways to leave some of the ladies in Africa (9)
13 Talk about state of Africa (5)
14 Cut speed (4)
16 Russian airforce start to test new plan (7)
19 Central European and Irishman almost generate doctrinal argument (7)
21 Settles in French country – left out of sports (4)
24 A way of showing interest – one pound for thirty days (5)
25 Giving name for oriental horse (small) and rodent (tailless) (9)
27 Some women on a general election broadcast to represent minority (6)
28 Short note about Iowa details (8)
29 Change gallery after letter from Greece (6)
30 Mediterranean patch of grassland in the shade? (8)

DOWN
1 Almost completely made from timber growing on mountains (6)
2 Room to lie about (6)
3 A Star is Born, appearing in ... the Wind in the part of Wall (5)
4 Calls for more expensive jewellery items first (5-2)
6 Lee gladly moved, they say (9)
7 Ancestor reported four with nothing on (8)
8 Set off for school in time (8)
11 Artillery on the way over to the emperor (4)
15 Source of illumination hit – a dangerous situation (9)
17 Moss hangs up, confused by head of McLaren (8)
18 Unusual article about new instrument (8)
20 Boasted for example nine in Oxford boat (4)
21 Short biographical outline for the papers (7)
22 Japanese play evil amateur (6)
23 Daisy beginning to nod at the back (6)
26 Person addicted starts to neglect growing children (5)

Solution to Saturday's prize puzzle on Saturday December 27.
Solution to yesterday's prize puzzle on Monday December 29.

tput

Mexican frost lifts coffee futures

MARKETS REPORT

life

smelter

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

CROSSWORD

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Bank Von Ernst & Cie AG

[illegible]

Frontrunner I (z)

[illegible]

Banque Indosuez

[illegible]

GT Global

[illegible]

Barclays Diversified Portfolio (z)

[illegible]

Morgan Stanley Sicav - Contd.

[illegible]

ACM Offshore Funds - Contd.

[illegible]

Credit Suisse Asset Mngmt Funds - Contd.

[illegible]

Merrill Lynch Asset Management - Contd.

[illegible]

TCW Luxembourg Funds

[illegible]

Friends Provident International

[illegible]

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

[illegible]

OFFSHORE INSURANCES

Aberdeen International Ltd

[illegible]

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

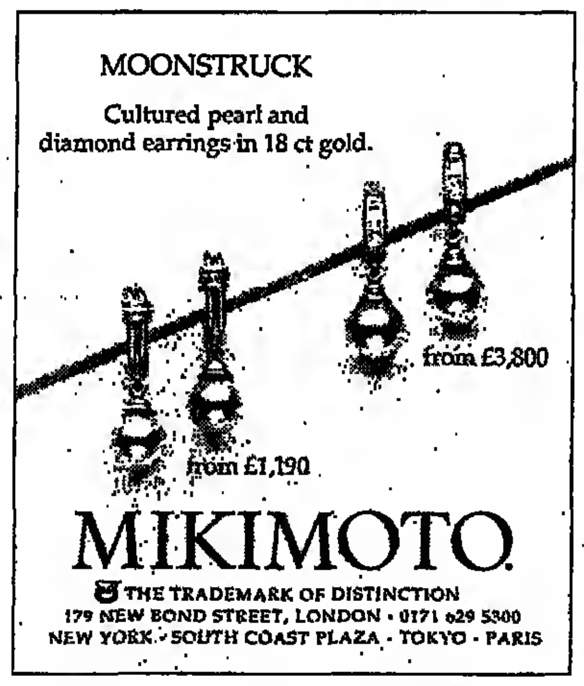
● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

	Selling Price	Buying Price	+ or -	Yield Gross
Professional Investment Consultants				
Premier Lux $	$1.17	1.23	—	-
Premier Lux £	£0.80	0.85	—	-
PCI Worldwide Opps	£1.330	1.430	—	-
SPILA Flexible Growth	$1.011	1.088	-0.006	-
Royal Life International				
Royal Court, Athol Rd, Castletown IoM 01624 821212				
Pension Growth A	£1.750	1.882	—	-
Pens Growth (Europe)		£3.514	—	-
Royal Life UK Mngd Fd	£2.442	2.628	—	-
Royal Life Gilt Fd	£2.669	2.870	+0.016	-
Royal Life UK Eqs Fd	£2.334	2.518	+0.014	-
Royal Life Euro Fd	£2.511	2.700	+0.007	-
Ryl Life Intl Cash Fd	$1.490	1.609	+0.001	-
VRA Growth Fd	£1.289	1.387	—	-
S.A.M. 1	$1.956	2.059	—	-
S.A.M. 2	£1.429	1.495	—	-
S.A.M. 3	£2.337	2.461	—	-
S.A.M. 4	£1.812	1.908	—	-
[illegible]				

	Selling Price	Buying Price	+ or -	Yield Gross
Aurum Funds				
c/o MacPherson Fund Administration				
Aurum Multi-Fund Ltd Dec 31	$118.53		—	-
Aurum Gold Fund Ltd Oct 31	$46.45		—	-
[illegible] Ltd Oct 31	$127.68		—	-
BAS-EX Currency Fund Plc				
NAV (OEIC)	L91374		+1301	-
BEA Associates				
[illegible]	$70.46		—	-
[illegible]	$70.76		—	-
[illegible]	$31.93		—	-
BNP				
FIT - Millenn 1	$1324.47		—	
Eclipse Strategic Opps	$964.65		—	
Julius Baer Bank & Trust Co Ltd				
[illegible]				

OTHER OFFSHORE FUNDS

[illegible]



★ MANAGED FUNDS NOTES

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

هكذا من الاصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		£23¼	—	£27.5	£21⅝	—	3.0	♦
Barlow	‡	£5¾	+¼	£8¾	£5⅜	—	3.0	♦
Gold Flds Prop R		122	+1½	197	119	—	6.7	10.0
SA Brews	†	£14¾xd	+⅜	£20¾	£13⅞	—	2.5	-
Standard Bank		£26¾	+⅜	£36	£27⅞	—	2.1	-
Tiger Oats		820xd	-⅞	1100	790	—	2.4	♦
Tongaat-Hulett		764xd	+8½	780	716½	—	2.4	♦

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRANS		[illegible]	—	£[illegible]	£472	-	-	-

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves marked † in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ** Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ⁑ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1996-97
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
R Dividend is paid in whole or part as a FID (Foreign Income Dividend)
S Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion

The share prices printed on these pages are also available on the internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Sterling slide and bid talk drive Footsie higher

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

UK shares were firmly back on the upward trail yesterday, with the big investing institutions tending to concentrate on the many bullish factors in the market rather than continuing turmoil in the Far East.

There were still plenty of casualties in the Asian markets, although Seoul, the source of the most recent concerns, rallied sharply to finish 7 per cent up on the day. Hong Kong was described as "worryingly weak" by one London trader.

On the plus side, London remained alive with speculation that the recent spate of takeovers and mergers, most of which have involved small companies, will soon encompass the FTSE 100 with the financial sectors still viewed as the most likely battleground for a series of bids.

Adding to the general mood of optimism that returned to London yesterday were an unexpected interest rate reduction in Spain, a growing feeling that the US Federal Reserve's open market committee will leave US rates on hold for the time being, and a downturn in sterling.

The latter fell sharply against the dollar and the D-Mark, while the Bank of England's sterling Exchange Rate index dipped below 103 for the first time since early November, finishing at 102.4, down 1.2.

Sterling'e decline gave a boost to the big exporters, as well as the heavily weighted oil and pharmaceutical sectors which are big beneficiaries. As well as the bid stories, dealers continued to point to the likelihood of many more share buyback proposals, and the high levels of cash held by the institutions, as positive pointers for the market.

The FTSE 100 shrugged off a midday bout of profit-taking and accelerated strongly to finish the day a net 76.6 higher at 5,121.8. The lunchtime nerves were quickly dispelled as Wall Street came in on a firm note, later to fall back through the 7,900 level.

The second-tier stocks delivered a rather more sedate performance, the FTSE 250 finishing the session 5.1 ahead at 4,763.0. The FTSE SmallCap moved against the overall trend, however, slipping back below 2,300 and closing 0.7 lower on balance at 2,299.9.

Turnover in the market was a disappointment, however, eventually reaching a lowly 598.1m shares at the 6pm cut-off point.

Barclays was the star turn in a banking sector expected to provide the market with its next mega bid. Talk persisted that Barclays has NatWest in its sights, while many believe Abbey National or the Prudential would also attract predatory interest. "The overwhelming view in the City is that one bid in the banks/insurances will spark off a host of other strategic moves," said a financials specialist. There were suspicions, however, that a late surge by Barclays came as a result of a rather uncommercial electronic order book during the last few minutes of trading.

Shell headed the FTSE 100 performance table for much of the day, boosted by the well-received presentation to analysts and institutions last Friday.

FTSE All-Share Index

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover

Source: Estel

Indices and ratios

FTSE 250	4757.9	+4.1
FTSE 350	2431.7	+4.1
FTSE All-Share	2375.46	+3.82
FTSE All-Share yield	3.28	3.29
FT 30	3235.6	+6.7
FTSE Non-Fins p/e	19.82	19.80
FTSE 100 Fut Dec	5049.0	+15.0
10 yr Gilt yield	6.35	6.36
Long gilt/equity yld ratio	1.94	1.93

FTSE 100 Index

Closing index Dec 12	5045.2
Change over week	–97.7
Dec 11	5035.9
Dec 10	5130.7
Dec 9	5177.1
Dec 8	5157.4
High*	5223.5
Low*	4999.6

*Intra-day high and low for week

Shell presents pearls

By Peter John and Joel Kibazo

Shell Transport rushed towards the top of the Footsie in both volume and percentage outperformance as the shares responded to a positive presentation to investors.

At the London presentation, which finished after the market closed on Friday, and the repetition in New York yesterday, Shell outlined the group's plans for the next five years.

It announced targets that suggested growth of between 15 and 16 per cent. Shell added that share buybacks would be pursued if Dutch law is changed to make them feasible. And the group pledged to become more transparent – a point on which it has been heavily criticised in the past – by reporting in dollars, disclosing the potential of its existing upstream operations, and detailing further plans to boost management performance and "behaviour".

Ms Rachel Beaver at ABN Amro Hoare Govett said: "It was a very positive presentation. What did come across forcibly is that the company is committed to raising returns."

Analysts were looking closely at their numbers. NatWest Securities has increased its net income forecast for 2001 by 5 per cent to $14.3bn. Shell improved 20¼ to 448¼p on turnover of 20m shares.

Barclays and National Westminster raced ahead following weekend press comment that Barclays is stepping up pressure on NatWest to merge.

Barclays shot forward 79 to £17.15 as one newspaper reported that Martin Taylor, chief executive, was promoting the concept of a "national champion" in British banking to be able to compete on a world scale.

There were hints that the rise, in late trade, was reflecting an aberrant trade thrown up by the new SETS dealing system. But the banking sector has been nervous for months as the disposals of Barclays and NatWest securities arms and the proposed merger between UBS and SBC have fuelled merger rumours.

Overseas offer

While dealers have suggested the possibility of a link between Barclays and rival NatWest, most analysts believe an offer will come from an overseas operation such as ABN Amro, the cash-rich Dutch bank.

On the other hand, there is nervousness that the sector is sitting on a bubble which could burst if a bid does not materialise fairly soon. NatWest rose 21½ to 999p.

Sedgwick moved sharply higher in early trading following a newspaper report that Aon of the US was poised to announce an agreed £1bn bid for the insurance broker.

The rise prompted a denial from the company which said: "Sedgwick confirms that no discussions with Aon have taken place during the past 12 months or are currently taking place."

Talk of a takeover of Sedgwick by either Aon or Marsh & McLennan has been circulating all year but has grown to a clamour over the past couple of weeks.

The company announcement took the share price down from 18 higher to a net 2 up at 150p. Willis Corroon, which has also been driven higher by takeover talk, rose 2 to 143½p.

Pearson, the media group which owns the Financial Times, gained 27 to 840p ahead of a trading update tomorrow.

Analysts expect the company's information group to benefit from strong recruitment advertising at the FT, while its entertainment and education divisions are also forecast to perform well.

But the shares have been buoyed further by growing speculation that Pearson is poised to sell its leisure division which includes Madame Tussaud's waxworks, Alton Towers and Warwick Castle, to Rank Group.

Analysts at Panmure Gordon calculate the fair value of the leisure division at £340m. Traders suggest that adding on a bid premium could take a sale price to £400m. Rank fell 10½ to 335p as a result of the rumours. Both companies declined to comment although one specialist pointed out that similar speculation surfaced earlier in the year and the latest rumours might represent an attempt to recycle old gossip.

Coats Viyella topped the FTSE 250 performance league throughout the trading session, eventually closing a net 3¼ ahead at 115p as the market responded to widespread speculation that tomorrow's trading update will see the company split into two.

In general retailers, Dixons fell 16 to 614p amid concerns about the company's trading prospects in the run-up to Christmas. But Boots was very much in favour and the shares gained 27½ to 890p.

The strong market trend helped boost food retailer Asda Group, the shares closing 2 firmer at 175p.

The group, which reports interim figures on Thursday, was at the centre of rumours last week suggesting it was about to bid for rival Safeway. The two groups called off merger talks earlier this year but reports on Friday said Asda was raising funds in the debt market, which fuelled the speculation of corporate activity.

Seasoned analysts remain sceptical about a bid being launched in the next few weeks, but they will be watching closely for hints of corporate activity on Thursday when Asda unveils its figures. Profits are expected to be in the region of £180m to £185m, up from £160.1m last time.

NatWest Securities yesterday advised clients to reduce holdings saying, Asda will doubtless deliver on the sales line yet again but it has an Achilles heel. Although sales growth will be usefully underpinned by space extensions and expansion of non-food square footage, further out the company will need to address the problem of scale, being about half the size of Tesco and J Sainsbury.

Safeway shares closed just ½ ahead at 344½p, and J Sainsbury 1¾ harder at 510p. Tesco advanced 7¼ to 492½p.

Property Asset Holdings, a £9m yield stock, began trading on AIM yesterday. The shares placed at 6p, opened at 7¼ and ended at 7p.

A weekend press report suggesting GEC is in talks to buy out Siemens' 40 per cent stake in their GPT telecoms equipment joint venture for £550m to £700m cast a shadow over the UK defence electronics group. The shares fell 9¼ to 396½p with one analyst saying: "We thought GEC was about to sell not buy that stake."

Engineering group Siebe ended the day 32 off at £11.60 as rumours that the group may be readying itself for corporate activity circulated.

FT 30 INDEX

	Dec 15	Dec 12	Dec 11	Dec 10	Dec 9	Yr ago	*High	*Low
FT 30	3272.2	3235.6	3228.9	3267.4	3291.9	2752	3430.2	2668.8
Ord. div. yield	3.46	3.50	3.51	3.46	3.43	4.15	4.22	3.29
P/E ratio net	21.23	20.98	20.95	21.26	21.48	16.64	22.88	15.80
P/E ratio nil	20.94	20.70	20.68	20.97	21.17	16.48	22.02	15.71

FT 30 since compilation: high 3430.3 16/10/97; low 49.4 16/02/00. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3235.7	3240.8	3264.1	3273.0	3270.4	3266.5	3262.1	3263.5	3270.2	3276.5	3235.1

	Dec 15	Dec 12	Dec 11	Dec 10	Dec 9	Yr ago
SEAQ bargains	48,128	43,350	48,511	46,473	52,107	32,705
Equity turnover (£m)†	-	1603.1	2931.8	2673.0	2871.8	989.4
Equity bargains†	-	32,609	40,056	40,127	45,905	18,885
Shares traded (mil)†	-	481.7	823.4	732.3	898.7	453.8

†Excluding intra-market and overseas turnover but including Crest turnover.

 *For 1997.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	950	Total Highs	104	Total contracts	25,835
Total Falls	581	Total Lows	99	Calls	11,836
Same	1,519			Puts	13,999

Dec 15 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5060.0	5132.0	+83.0	5135.0	5055.0	16591	42192
Mar	5111.0	5183.5	+84.0	5184.0	5110.0	11579	24674

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4770.0	4770.0	+5.0	4770.0	4770.0	1869	4653

FTSE 100 INDEX OPTION (LIFFE) (5116) £10 per full index point

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

LONDON RECENT ISSUES: EQUITIES

FTSE GOLD MINES INDEX

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

FTSE Actuaries Industry Sectors

Hourly movements

TRADING VOLUME

Major Stocks Yesterday

FTSE INTERNATIONAL

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 15 / Sch)

BELGIUM/LUXEMBOURG (Dec 15 / Frs.)

CZECH REP (Dec 15 / Koruna)

DENMARK (Dec 15 / Kr)

FINLAND (Dec 15 / Mk)

FRANCE (Dec 15 / Frs.)

GERMANY (Dec 15 / Dm.)

GREECE (Dec 15 / Drachma)

ITALY (Dec 15 / Lira)

NETHERLANDS (Dec 15 / Fls.)

NORWAY (Dec 15 / Kroner)

POLAND (Dec 15 / Zloty)

PORTUGAL (Dec 15 / Escudo)

SPAIN (Dec 15 / Pta.)

SWEDEN (Dec 15 / Kronor)

SWITZERLAND (Dec 15 / Frs.)

TURKEY (Dec 15 / Tk Lira)

PACIFIC

JAPAN (Dec 15 / Yen)

AUSTRALIA (Dec 15 / Aus$)

HONG KONG (Dec 15 / H.K.$)

INDONESIA (Dec 15 / Rupiah)

MALAYSIA (Dec 15 / MYR)

NEW ZEALAND (Dec 15 / NZ $)

SINGAPORE (Dec 15 / S$)

SOUTH KOREA (Dec 15 / Won)

TAIWAN (Dec 15 / TW $)

THAILAND (Dec 15 / Baht)

AFRICA

SOUTH AFRICA (Dec 15 / Rand)

NORTH AMERICA

CANADA

TORONTO (Dec 15 / Can $)

4 pm close

MONTREAL (Dec 15 / Can $)

4 pm close

Emerging markets: IFC Investable indices

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY DECEMBER 12 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY DECEMBER 11 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (74)	192.68	-1.0	172.91	158.71	177.63	193.45	-1.0	3.92	195.87	175.57	161.14	180.57	195.47	243.87	190.41	213.00
Austria (23)	187.85	0.5	168.67	154.81	173.26	173.15	0.5	1.92	187.02	167.64	153.87	172.42	172.30	213.59	175.14	197.36
Belgium (27)	252.52	0.0	226.81	208.00	232.79	227.92	0.1	3.02	252.48	226.32	207.73	232.77	227.70	261.11	221.31	223.52
Brazil (30)	212.90	0.2	191.06	175.37	196.27	437.39	0.4	2.03	212.47	190.45	174.80	195.88	435.79	322.44	178.96	179.83
Canada (122)	212.88	0.5	191.04	175.35	196.24	219.03	0.1	1.80	211.73	189.79	174.19	195.16	218.83	233.58	178.27	184.60
Denmark (32)	437.47	0.8	392.59	360.35	403.29	401.65	0.6	1.27	434.05	389.07	357.11	400.16	398.66	437.47	334.25	337.66
Finland (26)	274.50	0.0	246.33	226.10	253.05	307.91	-0.1	2.04	274.56	246.10	225.88	253.12	308.26	349.43	232.86	240.15
France (84)	230.12	0.1	206.51	189.55	212.14	214.38	0.1	2.49	230.00	206.17	189.23	212.04	214.22	246.23	203.73	204.73
Germany (58)	224.69	0.9	201.64	185.08	207.13	207.13	0.9	1.42	222.56	199.50	183.11	205.16	205.16	243.87	183.03	187.13
Hong Kong, China (66)	352.22	1.1	316.08	290.12	324.69	350.45	1.1	4.56	348.38	312.28	286.62	321.18	346.62	590.03	314.78	497.11
Indonesia (27)	65.36	-15.5	58.66	53.84	60.25	201.49	-7.3	3.34	77.35	69.33	63.64	71.31	217.33	254.90	65.36	224.19
Ireland (16)	403.49	0.3	362.09	332.35	371.96	388.37	0.1	2.55	402.39	360.69	331.05	370.96	388.04	409.57	310.29	312.60
Italy (53)	110.50	0.6	99.16	91.02	101.87	143.38	0.6	1.70	109.80	98.51	90.42	101.32	142.58	115.27	78.11	79.28
Japan (482)	96.32	-1.5	86.44	79.34	88.79	79.34	-1.4	1.00	97.79	87.65	80.45	90.15	80.45	141.12	96.91	135.23
Malaysia (107)	168.55	-3.6	151.26	138.84	155.38	247.65	-1.9	2.94	174.94	156.81	143.93	161.28	252.49	660.85	168.55	598.99
Mexico (27)	1670.56	0.4	1499.17	1376.04	1540.02	14913.36	0.0	1.63	1664.44	1491.95	1369.38	1534.47	14913.36	1901.96	1147.96	1169.48
Netherlands (18)	402.56	0.1	361.26	331.59	371.10	367.12	0.1	2.29	402.11	360.44	330.83	370.71	366.89	440.67	213.79	316.60
New Zealand (14)	79.38	-1.6	71.24	65.39	73.18	70.89	-1.8	4.37	80.69	72.33	66.38	74.39	71.86	96.47	75.37	91.44
Norway (36)	326.92	-0.4	293.38	269.29	301.38	322.45	0.1	1.89	328.35	294.32	270.14	302.71	322.27	374.64	277.33	282.24
Philippines (22)	81.94	-5.7	73.53	67.49	75.53	154.96	-1.5	1.35	86.93	77.92	71.52	80.14	157.25	214.07	78.40	201.07
Singapore (42)	238.40	-2.5	213.95	196.37	219.79	182.21	-1.0	1.75	244.40	219.07	201.07	225.32	184.03	448.01	215.21	411.87
South Africa (43)	252.72	0.3	226.79	208.17	232.97	270.17	0.2	3.20	251.92	225.81	207.26	232.25	269.61	370.12	251.92	311.13
Spain (33)	268.79	0.7	241.22	221.41	247.79	305.41	0.8	2.21	266.90	239.24	219.58	246.05	302.96	277.93	198.92	199.62
Sweden (49)	465.77	-0.4	417.98	383.66	429.38	535.34	-0.6	1.94	467.66	419.21	384.77	431.18	538.58	538.94	402.43	408.38
Switzerland (31)	332.24	0.4	298.16	273.67	306.28	295.39	0.0	1.14	331.00	296.70	272.32	305.16	295.34	332.47	231.69	238.92
Thailand (38)	20.86	-4.8	18.71	17.17	19.22	36.43	-1.7	7.89	21.91	19.64	18.03	20.20	37.06	108.19	20.85	107.94
United Kingdom (214)	327.53	0.1	293.93	269.78	301.94	293.93	0.2	3.35	327.34	293.41	269.31	301.78	293.41	337.99	264.87	266.07
USA (642)	388.40	-0.2	348.55	319.93	358.05	388.40	-0.2	1.59	389.22	348.89	320.22	358.83	389.22	401.22	293.43	296.99
Americas (821)	352.72	-0.2	316.54	290.54	325.18	297.66	-0.2	1.61	353.32	316.70	290.68	325.73	298.22	365.76	268.24	271.42
Europe (705)	283.20	0.2	254.15	233.28	261.07	265.37	0.3	2.41	282.50	253.22	232.42	260.44	264.68	296.25	227.46	229.15
Nordic (147)	408.91	-0.2	366.96	336.82	376.96	410.13	-0.2	1.84	409.56	367.11	336.95	377.58	411.08	464.93	345.30	350.71
Pacific Basin (873)	106.51	-1.4	95.58	87.73	98.18	88.56	-1.1	1.68	108.02	96.83	88.87	99.59	89.58	168.99	106.51	153.17
Euro-Pacific (1578)	180.21	-0.3	161.72	148.44	166.13	154.98	-0.2	2.16	180.80	162.06	148.75	166.68	155.34	209.12	173.55	184.73
North America (764)	377.30	-0.2	338.59	310.78	347.82	377.04	-0.2	1.60	377.97	338.80	310.96	348.45	377.78	389.57	286.81	290.22
Europe Ex. UK (491)	253.24	0.4	227.26	208.60	233.45	243.41	0.3	1.87	252.33	226.18	207.60	232.63	242.66	267.07	202.63	204.48
Pacific Ex. Japan (391)	198.22	-1.1	177.88	163.27	182.73	197.60	-0.4	3.96	200.37	179.60	164.85	184.72	198.33	320.65	194.30	308.19
World Ex. US (1800)	183.88	-0.3	165.01	151.46	169.51	161.44	-0.2	2.15	184.37	165.26	151.68	169.97	161.77	212.89	176.94	186.56
World Ex. UK (2228)	242.40	-0.3	217.53	199.66	223.46	220.28	-0.2	1.68	243.06	217.87	199.97	224.08	220.84	262.69	211.16	217.01
World Ex. Japan (1960)	326.39	-0.1	292.90	268.85	300.89	316.44	-0.1	1.98	326.60	292.75	268.70	301.09	319.59	344.35	264.51	266.41
The World Index (2442)	249.62	-0.2	224.01	205.61	230.11	226.98	-0.2	1.86	250.21	224.28	205.85	230.67	227.43	268.47	216.61	221.22

4 pm close December 15

NEW YORK STOCK EXCHANGE PRICES

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Exel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. 4-ex-dividend or ex-rights. yld-yield. z-sales in full. ‡ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Dec 12	Dec 11	Dec 10	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7838.30	7848.99	7978.79	8259.31 (6/8)	6391.69 (11/4)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	104.86	104.57	104.51	104.86 (4/12)	101.09 (14/4)	104.86 (4/12/97)	54.99 (1/10/81)
Transport	3236.81	3243.68	3334.90	3359.27 (15/10)	2222.07 (2/1)	3359.27 (15/10/97)	13.23 (8/7/32)
Utilities	261.49	259.30	260.42	281.49 (12/12)	209.47 (25/4)	281.49 (12/12/97)	16.53 (8/7/32)

DJ Ind. Day's high 7947.21 (7981.84) Low 7756.73 (7778.37) (Theoretical‡)
Day's high 7904.94 (7973.97) Low 7784.38 (7815.17) (Actual‡)

Standard and Poors	Dec 12	Dec 11	Dec 10	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	953.39	954.94	969.79	983.79 (5/12)	737.01 (2/1)	983.79 (5/12/97)	4.40 (1/6/32)
Industrials¶	1102.24	1105.51	1123.17	1148.82 (7/10)	885.42 (11/4)	1148.82 (7/10/97)	3.52 (30/6/32)
Financial¶	117.37	117.06	118.86	120.83 (8/12)	80.75 (2/1)	120.83 (8/12/97)	7.13 (4/5/74)
Others							
NYSE Comp.	500.00	500.42	507.70	514.31 (5/12)	389.47 (11/4)	514.31 (5/12/97)	4.64 (25/4/42)
Amex Comp	665.80	664.45	669.45	721.80 (7/10)	541.22 (28/4)	721.80 (7/10/97)	524.20 (16/7/96)
NASDAQ Cmp	1536.58	1558.54	1588.81	1746.85 (9/10)	1201.00 (2/4)	1745.85 (9/10/97)	54.87 (3/10/74)
Russell 2000	422.63	424.70	432.81	465.21 (13/10)	335.85 (25/4)	465.21 (13/10/97)	123.35 (7/12/93)

RATIOS

	Dec 12	Dec 5	Nov 28	Year ago
Dow Jones Ind. Div. Yield	1.74	1.68	1.74	2.09
	Dec 10	Dec 3	Nov 26	Year ago
S & P Ind. Div. yield	1.48	1.46	1.50	1.85
S & P Ind. P/E ratio	26.09	26.33	25.78	23.04

US DATA

MARKET ACTIVITY

Volume (million)	Dec 12	Dec 11	Dec 10
NYSE	579.280	628.752	605.670
Amex	28.002	32.264	29.571
NASDAQ	789.272	834.205	750.548

NYSE	Dec 12	Dec 11	Dec 10
Issues Traded	3,428	3,454	3,462
Rises	1,473	745	1,004
Falls	1,430	2,256	1,960
Unchanged	523	453	479
New Highs	112	84	132
New Lows	112	142	75

NYSE TRADING ACTIVITY — Volume : 579,280,000

ACTIVE STOCKS Friday	Stocks traded	Close price	Day's change
Compaq	9,409,700	59¼	−½
IBM	8,758,200	99⅞	−1½
Safeway	6,637,980	59	−⅞
Green Tree	5,568,800	22⅛	−1½
Texas Inst	5,361,000	41⅛	−1⅛
Tel Brasil	4,971,800	101⅛	+⅛
Philip Morris	4,313,600	45⅛	+⅛
Motorola	4,278,900	58¼	−⅛
Hilton Hotels	3,958,200	26⅞	+⅛
Citicorp	3,832,000	125⅞	−1⅛

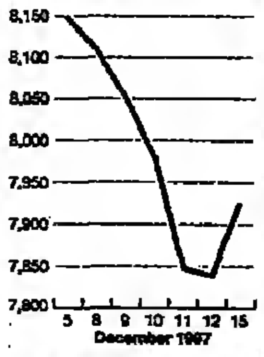
BIGGEST MOVERS Friday	Close price	Day's change	Day's chge %
Ups			
Ionics	36⅞	+3¼	+9.3
Headwaters	38⅛	+2⅞	+8.5
Cooper Cos	64¾	+3½	+5.5
Cons Ed	40	+2⅛	+5.4
Downs			
PT Telek	9½	−2⅞	−22.8
Gulf Ind	20⅞	−3½	−14.3
42	23⅛	−3⅛	−12.8
Carrasco	29¼	−3¼	−9.9

NASDAQ TRADING ACTIVITY — Volume :789,272,000

ACTIVE STOCKS Friday	Stocks traded	Close price	Day's change
Elec Imag	32,110,300	14⅞	−24½
Cisco Sys	26,651,600	75⅛	−5⅞
Appld Mat	20,205,000	28¾	−1⅛
Intel	19,558,300	70¾	−1⅛
Oracle	18,393,400	22¼	+⅞
Qualcomm	11,252,200	50⅞	−8⅞
Dell Cmptr	10,922,900	86¾	−⅞
Microsoft	8,751,000	135¾	−2⅛
Gemstar	6,095,600	18⅞	−1
Eag Fin	5,870,000	22⅛	

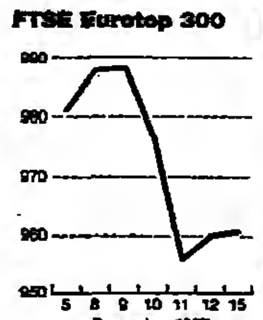
BIGGEST MOVERS Friday	Close price	Day's change	Day's chge %
Ups			
Spectra	12½	+2½	+25.0
Oswego City	30	+5	+20.0
Spine Tech	44¼	+6⅞	+18.4
Far State	22	+2¾	+14.3
Downs			
Microtouch	13⅞	−7⅛	−34.0
Flex Host	10¾	−5¼	−33.9
Vesco Inst	19⅞	−7	−26.1
Litchfield	17¾	−5¼	−22.8

Dow Jones



December 1997

FTSE Eurotop 300



December 1997

JAPAN

	Dec 15	Dec 12	Dec 11	1997 High	1997 Low	Since compilation High	Since compilation Low
Nikkei 225	15903.39	15904.30	16050.15	20681.07	15082.52	38915.9	85.25

TOKYO TRADING ACTIVITY — Volume : 414,000,000

ACTIVE STOCKS Monday	Stocks traded	Close price	Day's change
Yamaichi Sec	25,377,000	2	
Hokkaido Takus	11,723,000	1	
Fuji Bank	8,144,000	587	−3
Asia Corp	7,815,000	51	+5
Nip Steel	7,278,000	187	+6
Sakura Bank	7,156,000	475	+8
NKK Corp	5,798,000	113	+4
Kobe Steel	5,824,000	102	−3
Yamada Tr	5,346,000	182	+4
LTCB	5,268,000	241	−8

BIGGEST MOVERS Monday	Close price	Day's change	Day's chge %
Ups			
Mitsuwa Fst	320	+72	+18.4
Shimamura	1920	+400	+17.2
Nissha Prtg	895	+140	+16.8
Taiho	220	+40	+15.4
Downs			
Nitto Const	195	−44	−23.1
Matsuya	390	−53	−15.0
Morozoff	320	−40	−14.3
Tobishima	67	−8	−13.6

FRANCE

	Dec 15	Dec 12	Dec 11	1997 High	1997 Low	Since compilation High	Since compilation Low
CAC 40	2838.27	2830.25	2828.45	3094.01	2256.97	3094.01	984.61

PARIS TRADING ACTIVITY — Volume : 221,684,485

ACTIVE STOCKS Monday	Stocks traded	Close price	Day's change
Michelin	1,074,942	281.5	−12.5
Elf Aquitaine	1,030,089	625	−16
C.Fin Paris A	831,681	403.4	−12.8
Ass Gn France	789,437	330	+4.8
Usinor	763,582	82.5	+2.05
Rhone-Poulenc A	751,855	262.5	+6
Axa-UAP	728,935	455.5	+3
Fr. Telecom	701,189	210.8	+5.7
Total B	569,927	582	−5
BNP	538,201	330	−6

BIGGEST MOVERS Monday	Close price	Day's change	Day's chge %
Ups			
Palais Nouveau	520	+155	+42.5
CNIM	190.2	+23.2	+13.9
Vermd Sucre	6590	+690	+11.7
CET	287.8	+26.8	+10.3
Downs			
Coparex	12.05	−2.75	−18.6
ST Dupont	68.2	−15.4	−18.3
Maison 44 Cle	812	−48	−8.8
FPP	300	−28.9	−8.8

GERMANY

	Dec 15	Dec 12	Dec 11	1997 High	1997 Low	Since compilation High	Since compilation Low
DAX	4060.04	4082.60	4030.16	4438.93	2848.77	4438.93	931.18

FRANKFURT TRADING ACTIVITY — Volume : 11,181,363

ACTIVE STOCKS Monday	Stocks traded	Close price	Day's change
Commerzbank	677,404	68.75	+0.55
Bayer	625,229	61.75	−0.37
Deut. Bank	501,402	123.3	+1
Lufthansa	476,587	32.8	−1.78
Deut. Telekom	475,336	33.3	−0.4
Siemens	463,825	102.4	−1.5
BASF	447,404	61.9	−0.1
Hoechst	368,640	64.05	+1.55
Dresdner bank	285,013	81.4	+1
Veba	258,298	113.1	−0.5

BIGGEST MOVERS Monday	Close price	Day's change	Day's chge %
Ups			
Kali U.Salz	146.5	+21	+16.7
Elmeg	25	+3	+13.0
VEW	620	+70	+12.7
Sixt	155	+8.5	+5.8
Downs			
Weber MV	38.5	−3.5	−8.3
Hoelken Bros	345	−25.3	−6.8
Schmalb Rodk	275	−20	−6.8
Walls	1150	−80	−6.6

UK

	Dec 15	Dec 12	Dec 11	1997 High	1997 Low	Since compilation High	Since compilation Low
FTSE 100	5121.8	5045.2	5035.9	5330.80	4056.80	5330.8	986.9

LONDON TRADING ACTIVITY — Volume : 880,100,000

ACTIVE STOCKS Monday	Stocks traded	Close price	Day's change
Shell Trns	21,815,880	440½	+20½
T&N	15,083,180	250	
Tomkins	12,814,000	21¼	+¼
LucasVarity	12,382,790	202¼	+3¼
Brit. Steel	7,978,633	136¾	+4¼
BTR	7,798,143	181	−½
Vodafone	7,496,568	425	+18
BP	7,195,252	214½	+21½
SmithBchm	7,086,454	628	+18
BT	6,985,803	477	+21¼

BIGGEST MOVERS Monday	Close price	Day's change	Day's chge %
Ups			
Abacus Rect	205	+37½	+22.4
Dunham-Bush	5¼	+¾	+18.2
Riceman Ins	18¼	+2¾	+16.2
Adscene Grp	151½	+18	+14.3
Downs			
M.L. Labs	111½	−23½	−17.4
First Info	3	−½	−14.3
Birkdale Grp	1¾	−¼	−12.5
Ass.Brit Eng	1¾	−¼	−12.5

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	958.00	960.00	+4.50	961.00	958.00	54,593	187,472
Mar	966.50	970.20	+3.80	972.00	959.60	164,110	242,640

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	15880.0	15850.0	−	15890.0	15630.0	18,187	155,225
Jun	15780.0	15830.0	−10.0	15780.0	15830.0	161	29,398

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	2845.0	2843.0	+18.0	2862.0	2831.0	9,880	40,865
Jan	2857.0	2850.0	+10.0	2866.0	2844.5	1,022	7,822

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	4078.0	4033.0	−34.0	4094.0	4030.5	19,434	60,840
Mar	4107.5	4070.0	−31.0	4130.0	4069.0	8,857	18,346

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	2335.00	2337.00	+5.00	2354.00	2330.00	3,579	27,552
Jan	2349.50	2349.00	+7.50	2360.00	2340.00	1,850	3,138

SOFFEX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	6040.0	5994.5	−20.5	6072.0	5987.0	3,886	20,662
Jan	6050.0	6003.5	−25.0	6088.0	5995.0	1,245	3,697

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

Country	Index	Dec 15	Dec 12	Dec 11	1997 High	1997 Low	Yield	P/E
Argentina	General	21292.45	21289.36	21525.84	28771.78 22/10	18327.37 2/1	3.48	17.8
Australia	All Ordinaries	2500.9	2494.0	2516.8	2778.20 25/9	2288.20 28/10	3.74	18
	All Mining	548.9	549.3	561.3	987.18 24/2	541.10 27/11		
Hungary	Bux	7195.41	7124.62	6958.40		4293.30 6/1	na	na
India	BSE Sens.	3357.56	3329.27	3328.14		3225.24 2/1		
	Coll 500	820.73	815.28	815.84			na	na
Poland	WIG	14203.2	14061.8	14316.8		14081.80 12/12	1.8	10.4
Portugal	BVL 30	3673.86	3610.01	3588.02	3888.61 3/10	2166.87 2/1	1.6	28.1
	PSI 20	8542.83	8389.71	8335.60		5182.34 2/1		

Telstra improved ahead of next month's entry into the All Ordinaries index.
Telecom heavyweight Matav eased, but broad market improved ahead of today's derivatives expiry.
Selected buying by foreign funds gave overall market a lift.

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NASDAQ NATIONAL MARKET

4 pm close December 15

[illegible]

AMEX PRICES

4 pm close December 15

[illegible]

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members.

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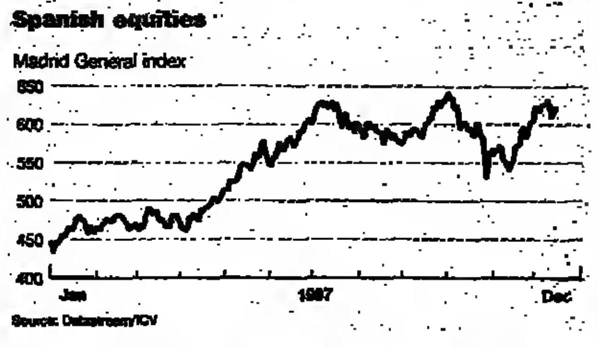
Seoul rally fails to give Europe much heart

WORLD OVERVIEW

Last week's Asian-induced jitters eased as the picture from South Korea brightened, but leading stock markets still struggled to start the last full week before Christmas on a positive note, *writes Jonathan Ford.*

Concerns that South Korean politicians might seek to play politics with the country's IMF-led rescue package – a major factor in Friday's slide – were lessened after all three candidates in the presidential election promised to abide by the deal already negotiated. The Seoul market bounced back more than 7 per cent.

Spanish equities



These gains, combined with a pedestrian performance from Tokyo, allowed European and US markets to worry less about Asia's problems than in the past few sessions.

Nonetheless, Europe struggled to make much headway in the face of stronger-than-expected US industrial production figures.

The November figures, which showed output rising 0.8 per cent month-on-month against estimates of 0.6 per cent, seemed to threaten the view that, post-Asian turmoil, the US economy is slowing sufficiently to avoid the need for interest rate rises.

As a result, Europe ended distinctly mixed, with Frankfurt nearly 1 per cent lower and Paris managing just a small advance.

Wall Street took a marginally more sanguine view, with the Dow Jones ahead about 0.5 per cent in early trade. Technology stocks failed to rebound, however, and the tech-heavy Nasdaq index moved lower.

One bright spot came in southern Europe where the so-called Club Med bourses gained after the Bank of Spain announced a surprise interest rate cut to 4.75 per cent from 5 per cent.

The move focused investors' minds on the potential for equity markets in Spain, Portugal and Italy to benefit from short-term interest rate convergence ahead of European monetary union.

Lisbon ended 1.8 per cent ahead, Milan 1.1 per cent and Madrid 0.8 per cent.

Spain's rate cut came as the Organisation for Economic Co-operation and Development issued a report stating that short-term interest rates in the Euro zone were likely to settle below 4.5 per cent, considerably less than southern European rates. Italian rates, for instance, stand at 6.125 per cent and are expected to fall soon.

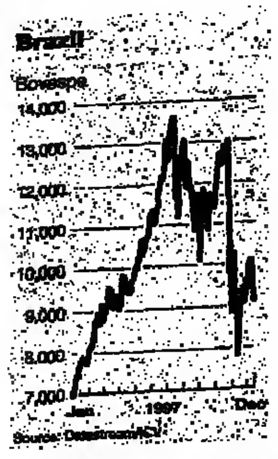
"You have great growth stories in Spain and Portugal, where the economies are growing, consumers are confident, and interest rates are set to come down because of European convergence," said Richard Davidson, European strategist at Morgan Stanley.

"Once currency rates are fixed next year, interest rate cuts should in theory be penalty free."

London market, Page 30

EMERGING MARKET FOCUS

Brazil set for slow recovery



The rout is over and foreign investors are making a tentative return to Brazilian stocks, according to Brazil's central bank. Foreigners made net investments of $425m during the first 11 days of December after net withdrawals of $1.16bn in November.

But analysts remain sceptical about a return of confidence in the short term. Brazil, they say, is still some months from the kind of recovery that seems to be under way in Mexico.

"The money that had to leave Brazil as a result of the Asian crisis has gone and we shouldn't see anything special in terms of inflows or outflows over the next month or so," says Helmut Bossert of the capital markets division of Unibanco, a Brazilian bank.

"But I'd rather not think about the short term. The recovery will come after the first quarter next year."

The evidence is that Brazil has shaken off the dose of Asian flu that laid its markets low in November. In the cautious trading that has been the norm this month, Brazil's exchanges seem to have returned their attention to what is traditionally their biggest external influence – Wall Street.

But the Asian crisis caused enough damage to Brazil's economy to rule out any recovery in the short term.

The crisis exposed the fundamental weakness caused by the country's persistent current account and budget deficits, underlining its vulnerability to a speculative attack on the real.

In response, the government more than doubled basic interest rates, to about 40 per cent a year.

The result has been a slump in credit sales. Sales of cars dropped by 30 per cent from October to November. Household electrical goods were hit almost as hard.

While some retail sectors have held up well in the approach to Christmas, most are expected to feel the crunch as the effects of the credit squeeze spread through the economy.

Predictions of economic growth next year range between plus and minus 1 per cent, with a strong downturn in the first quarter to be followed by a gradual recovery as interest rates fall.

Events in Congress over the next four months will be crucial to the rate of recovery. Brazilian shares can be expected to fare worse than Mexico's, for example, because Brazil has yet to make the politically difficult fiscal reforms needed to secure stability.

The Asian crisis has booted Congress into action and an important civil service reform took a big step forward last month.

But time is now tight before next October's general elections take over the political agenda – analysts say nothing significant will be voted in Congress after March.

If Congress keeps up its momentum, then the first signs of recovery in the economy should allow investors to start picking good prospects from about the end of the first quarter. Few can be expected to take the plunge before then.

Jonathan Wheatley

Dow climbs as financial sector revives

AMERICAS

US stocks were mixed as Asian uncertainties continued to send investors running from the technology sector while financial stocks rebounded, *writes John Labate in New York.*

"Its a schizophrenic market, with former leaders in technology having a blood bath," said Michael Metz, chief investment strategist at Oppenheimer.

As investors continued last week's trend out of technology shares, money poured into the financial sector as an overnight rally in South Korean stocks sent a wave of relief through the financial sector.

By early afternoon the Dow Jones Industrial Average had gained 43.51 or 0.56 per cent to 7,881.81. The broader Standard & Poor's 500 index was 4.13 higher at 957.52.

The Nasdaq composite, pulled down by the computer-sector sell-off, was 19.71 or 1.3 per cent lower at 1,516.87. Small stocks were also lower as the Russell 2,000 index of small company shares fell 3.78 to 418.85.

Many of the computer sector's biggest names were caught in the morning's selling. Compaq Computer lost $3¾ or 6.7 per cent to $52¼ after an analyst cut his 1998 earnings outlook. Rival Dell Computer fell $4¼ to $84¾. Cisco Systems, the networking leader, lost $2¾ to $74⅛.

In the software sector Microsoft fell $3½ to $133¼ while the software industry's second largest company, Oracle, bounced back after last week's sharp sell-off. Oracle was $¾ higher at $23.

Other stock sectors had their share of news-driven movements. A hostile takeover attempt by Kollmorgen Corp for Pacific Scientific sent Pacific's shares surging 37 per cent or $5¾ to $21⅜. Kollmorgen was up $⅜ to $17.

Banking stocks were strong as US Bancorp announced the acquisition of brokerage Piper Jaffray, sending Piper's shares up 32 per cent to $36¾. Citicorp climbed $4⅛ to $131¼ and BankAmerica rose $2¼ to $77¾.

In the retail sector, shares of KMart slid more than 5 per cent or $⅝ to $10⅛ after Salomon Smith Barney cut the stock rating to a "hold".

TORONTO was weak at midsession as investors continued to switch from equities to fixed income investments after Friday's 50-point interest rate rise by the Bank of Canada. The TSE-300 composite index was 55.09 lower at 6,566.80.

Harmac Pacific, the Vancouver-based pulp maker jumped C$2.80 to C$10.60 after its US rival Pope and Talbot said it planned an offer for 50.1 per cent of the stock.

The US group said it would bid C$11.50 a share in cash, which represented a 31 per cent premium over Harmac's average closing price for the past 20 days.

Ballard Power Systems soared C$9.50 to C$97.50 on news that Ford had bought a 15 per cent stake in the fuel cell technology company. However Ballard's chief financial officer insisted the company was not for sale.

Mexico slips after holiday

MEXICO CITY slipped in morning trading, with the IPC index losing 25.36 to 4927.68. Analysts said the market was catching up with Friday's losses on Wall Street, when the Mexican market was closed.

Opinions were mixed over news that Mexico's finance minister, Guillermo Ortiz, is to be the next governor of the Banco de Mexico, with analysts saying the move smacked of political interference in the central bank.

SAO PAULO lost ground in trade dominated by expiring options, with the Bovespa index falling 48 to 9,098 by midsession.

Analysts said options-related trade was lighter than usual as many options were not being exercised due to last week's 10 per cent fall in Telebrás. The telecoms utility accounts for 90 per cent of options trades. Telebrás rose R$2.10 to R$115.50.

BUENOS AIRES struggled to make headway, with investors still nervous about Brazil and Asia. The Merval index was 0.29 higher at 653.58 in morning trade.

Merger talk enlivens Paris

EUROPE

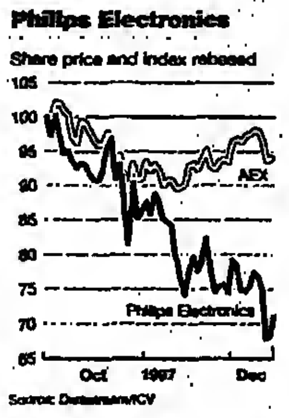
Bourses mostly ignored the firmer dollar and heartening start on Wall Street. PARIS traded narrowly with significant falls for SGS Thompson, Michelin and Elf Aquitaine keeping a tight lid on the proceedings.

Having traded within a range of just 28 points, the CAC 40 index ended 8.01 higher at 2,838.27.

Canal Plus and Havas were active on speculation that Generale des Eaux, a leading shareholder in the former, was teeing up a merger of the two media groups. Canal gained FFr33 to FFr993 and Havas FFr4.80 to FFr403.80.

Defence leader Thomson-CSF advanced FFr10 or 5.8 per cent to FFr184 on expectations that the United Arab Emirates is about to place an order for the Mirage fighter. Dassault, up FFr33 at FFr1,338, makes the fighter with Thomson supplying radar systems.

Philips Electronics



Among the casualties, Elf shed FFr16 to FFr635 following suggestions that the oil giant was planning a European retail venture. SGS lost FFr16.30 or 4.9 per cent to FFr317 in line with a US shakeout for tech shares. Michelin skidded FFr12.50 to FFr281.50.

Bouygues fell FFr48 or 6.7 per cent to FFr665 after Bollore Technologies effectively scotched talk of Bollore making a full bid for the construction group.

FRANKFURT closed near its lows for the day in thin trade with the Xetra Dax index down 32.83 to 4,029.06.

Karstadt plunged 8.4 per cent after the retail group's chief executive downgraded the group's 1997 net profit forecast to DM100m from DM150m.

The shares tumbled DM54.5 to DM594.50, and were also hit by indications of disappointing Christmas sales so far this year.

Against the trend, the chemicals and drugs group Hoechst moved 28 pfg ahead to DM62.66 on the back of a well-received presentation to analysts on Friday by its drugs unit, Hoechst Marion Roussel. At the presentation, HMR chief executive Richard Markham said the company had seven significant new drugs in the pipeline for 2000 and 2001, each with a market potential of DM750m or more a year.

AMSTERDAM managed to cling to the upside in spite of clear weakness at market heavyweight Philips, which tumbled 7.6 per cent on what brokers described as "fairly determined" US selling. The AEX index ended up 1.04 at 888.78.

The recent marked weakness for US tech sectors continued to rattle Philips. Shares in the electronics giant came off Fl 9.20 to Fl 111.50 in good volume.

Steelmaker Hoogoven also took a knock, dipping Fl 4.40 or 4.9 per cent to Fl 85.80 on investor doubts about European steel demand and prices.

Among financials, ING was the day's most active stock, trading 5.2m shares and dipping 60 cents to Fl 82.50 on reports that the group's planned purchase of a 10 per cent stake in Siam City Bank may be at risk. ABN Amro eased 60 cents to Fl 39.80 on confirmation of talks to buy the Australian operations of Barclays Bank's BZW offshoot.

Royal Dutch was a firm feature, adding Fl 2.40 or 2.3 per cent to Fl 108.10 after a steadier day for oil prices and in the wake of Friday's upbeat presentation to analysts.

ZURICH ran into profit-taking which drove the SMI index down 32.1 to 5,986.6.

Swiss Re, sharply higher in rumour-driven trade last week, jumped to an early SFr2,600 in immediate response to the company's plan to purchase SFr1bn of its shares in the first phase of a buyback scheme. But profit-takers took the upper hand on disappointment that the reinsurer will not buy back more than 3 per cent of its market capitalisation for now. The shares turned down to close SFr28 weaker at SFr2,541.

Kuoni, the tour operator, jumped SFr325 to SFr5,475 on speculation that it may also be planning a share buyback.

STOCKHOLM featured a 12.8 per cent surge in ASG, the transport group, on news that the company had sold its Frigoscandia unit to the US-based Security Capital Industrial Trust for SKr3.1bn. Analysts said the sale would give ASG a capital gain of SKr1bn, or approximately SKr60 per share after tax. ASG shares rose SKr21 to SKr185 and the general index finished 11.00 lower at 2,866.27.

MADRID was firmer, lifted by gains elsewhere and by a quarter-point cut in interest rates to 4.75 per cent. The general index closed 4.72 higher at 620.50.

Telefónica rose Pta105 to Pta4,495 after finalising a deal to leave the telecoms consortium, Unisource.

ISTANBUL jumped 4.5 per cent as sentiment improved after the finance minister said that tax planned on gains from share trading might be delayed until 1999. The IMKB National-100 index closed up 127 at 2,970.

Written and edited by Michael Morgan, Jeffrey Brown, Jonathan Ford and Peter Hall.

FTSE Actuaries Share Indices — European series

December 15

National & Regional Markets	Ecu index	Day's %	change points	Yield gross %	xd adj	Total retn (Ecu)
FTSE Eurotop 300	960.81	+0.07	+0.69	2.33	0.13	967.80
FTSE Eurotop 100	2221.77	+0.31	+6.93	–	–	–
FTSE Eurotop 300 Regions						
300 UK	974.20	+0.05	+0.50	3.19	0.35	969.51
300 Ex-UK	953.76	+0.08	+0.80	1.83	0.00	956.09
300 Eurobloc	937.22	+0.03	+0.28	2.05	0.00	940.62
300 Ex-Eurobloc	978.50	+0.10	+1.00	2.52	0.22	988.13
FTSE Eurotop 300 Economic Groups						
Resources	918.33	+0.84	+7.63	2.87	0.00	931.11
General Industries	881.56	−1.03	−9.12	2.23	0.00	883.61
Consumer Goods	954.83	+0.14	+1.33	1.90	0.00	965.09
Services	957.13	+0.03	+0.29	2.29	0.70	964.39
Utilities	1006.15	+0.67	+6.74	2.97	0.22	1014.33
Financials	1024.44	+0.30	+3.03	2.23	0.08	1030.10

SOUTH AFRICA

Johannesburg moved higher across the board. Golds improved modestly but industrials advanced by nearly 2 per cent and at the close the all-share index was up 107.4 at 6,058.9.

Dealers said turnover was on the thin side ahead of today's public holiday, but that sentiment remained in good shape.

The industrials index put on 134.2 at 7,295 while golds improved 9.0 to 692.5.

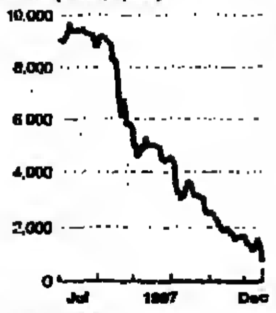
Currency woes plague Jakarta

ASIA PACIFIC

A plunging rupiah and continued worries about the health of President Suharto left JAKARTA reeling as the composite index lost 26.32 or 7.2 per cent to 339.54, its lowest level since May 1993.

Brokers said that foreign investors were dumping stocks after the rupiah fell to a historic low of 5,800 against the dollar in afternoon trading.

United Tractors



Currency-sensitive stocks plummeted. United Tractors lost 39.6 per cent after reporting worse than expected nine-month results, largely due to soaring foreign exchange losses. The shares ended at Rp725, down Rp475 on the day.

United Tractors has now lost 92.5 per cent of its value since hitting its 1997 peak of Rp9,675 on July 8.

SEOUL rose 7.2 per cent, boosted by a pledge from the three candidates in this month's presidential election to abide by the conditions of South Korea's IMF-led aid programme.

The move reversed a threat by opposition candidate Kim Dae-jung to renegotiate the programme, and calmed market fears that the IMF deal might not stick. The composite index ended 25.98 better at 385.80.

TOKYO market was temporarily depressed by gloomier than expected results of a business confidence survey, but regained momentum in the afternoon to close slightly above Friday's finish, *writes Bethan Hutton.*

The Nikkei 225 ended up 5.09 at the day's high of 15,909.39 after hitting a low of 15,642.86.

The broader-based Topix index of all first-section shares slipped 2.75 to 1,196.09, while the capital-weighted Nikkei 300 was 0.51 higher at 239.72.

Losers outnumbered gainers by 710 to 421, with 163 unchanged. Trading was considerably quieter than on Friday, as volume shrank to an estimated 414m shares, from 978m on Friday.

In London, the ISE/Nikkei 50 index advanced 9.09 to 1,483.68.

Trading was muted by the absence of corporate news, and in anticipation of today's announcement of financial and tax reform packages by the ruling Liberal Democratic party. The measures are expected to include up to Y10,000bn of help for the financial sector, as well as corporate and land tax cuts.

Several struggling construction companies with very low share prices rebounded, largely on the back of a support and restructuring package for Aoki Corporation announced on Friday.

Aoki gained Y5 to Y51, while Fujita climbed Y4 to Y50, and Tobishima Y8 to Y67. Taisei and Kajima, two larger construction companies, fell on news that Moody's was reviewing them for downgrading. Taisei dropped Y4 to Y218, and Kajima Y33 to Y387.

In Osaka, the OSE index fell 152.16 to 15,640.13 in volume of 11.8m shares.

HONG KONG dropped 1.7 per cent as regional currency troubles continued to plague the market, but a defensive approach ahead of the year-end helped the utility sector.

The Hang Seng index lost 179.51 at 10,435.15 in quiet turnover of HK$7.8bn.

China Light and Power gained HK$1.20 to HK$41 and Hongkong Electric Holdings advanced 15 cents to HK$26.60 as investors homed in on the utilities.

KUALA LUMPUR lost 2.9 per cent as the ringgit hit fresh lows against the dollar, which exacerbated the fall in share prices. The composite index closed 15.45 lower at 558.47 in thin trade of 168m shares.

SINGAPORE fell almost 2 per cent as fears about local bank exposure to the regional crisis deepened and the Singapore dollar touched a four-year low against the dollar. The Straits Times index closed 32.34 lower at 1,600.64.

MEXICAN FINANCE AND INVESTMENT

Out of the ashes of the 1994 peso crisis, Latin America's phoenix economy has taken flight. **Stephen Fidler** reports

On the crest of a wave

The economic recovery from Mexico's deep recession in 1995 has been faster than foreseen by even the most optimistic forecasters. The economy is larger in real terms than before the crisis in 1994 and the 1m jobs destroyed in 1995 have been more than recouped.

This year, as the economy grew by 7 per cent, 800,000 new jobs were created, the government says. Real wages, which fell by a fifth in 1995, have begun to recover and consumption is beginning to pick up.

The last time the Mexican economy grew at this rate was in 1981 and 1982. The growth of the early 1980s, propelled by heavy government spending and high oil prices, ended in the disaster of the 1982 debt crisis which condemned the country to a decade of recession. This time, though growth is likely to fade next year, economists see a different picture: tight budget discipline on the part of the government and an extraordinary expansion of non-oil exports.

The emergence of Mexico as an important exporter is just one of the changes forged from the crucible of the country's banking and financial crisis that was triggered by an ineptly handled devaluation in December 1994.

By cutting the dollar price of Mexican products, the crisis accelerated the integration of Mexico into the north American economy that was envisaged under the North American Free Trade Agreement which went into effect in 1994.

The US now takes 85 per cent of Mexican exports, compared with less than 70 per cent six years ago, and US companies are leading the charge of foreign direct investment into Mexico, which will rise this year to a record $11bn-12bn.

By the start of the year, according to official figures, the number of exporting companies in Mexico had more than doubled, to 31,000, since 1994.

One of the unusual aspects of the recovery has been that it has taken place with no net expansion of bank credit. Big exporters have turned to foreign banks for US dollar financing, while smaller companies have been forced to tap other sources of credit, including suppliers and customers. Some banks have begun, cautiously, to revive new lending this year but the shrinking loan portfolios of others have cancelled this out.

The high interest rates generated by the devaluation tipped most banks into crisis, a crisis which prised open the Mexican banking system to foreign capital. Banks from Europe and North America now control 17 per cent of the banking system's assets. Replete with new capital, these banks are showing the most dynamism, while Mexico's banking giants lick the deep wounds inflicted by the crisis, complaining that foreigners are taking their best customers.

Of the 18 banks privatised in 1991-92, only eight are owned by their original Mexican investors. The government controls a further 12 banks and now owns some $45bn of bank assets that it is finding hard to shed. The official estimate of the cost to the government of the bank crisis has been scaled up to 12 per cent of 1997 gross domestic product.

This figure, now in line with private sector estimates, is three times the receipts when the banks were sold.

Costs of this magnituda have turned the bank bail-out into a large potential political liability for the government of President Ernesto Zedillo. But Eduardo Fernández, president of the Banking and Securities Commission, the CNBV, denies that the rescue has been too soft on shareholders and managers. "They have been punished," he says.

Few disagree though that the bail-out has generated a moral hazard – incentives to perverse economic behaviour. A culture of non-payment of debts has developed, which Miguel Navas of Banco Bilbao Vizcaya, now running BBV Probursa, describes as surprising. "Those who can pay won't and those who want to can't," he says.

In a more positive development, a Chilean-influenced pensions reform has led more than 10m workers to join private pension funds, an affiliation rate that has surpassed most expectations. Meanwhile, since the devaluation other important sectors of the economy, such as telephones and railways, have been opened to competition and foreign capital.

Up in Acapulco: from demonstrations to plaudits, Ernesto Zedillo has presided over an economic boom fuelled by exports to the US

Amanda Morris, Reuters, AP

The peso, long a national obsession thanks to periodic davaluation crises, is now floating. Guillermo Ortiz, the finance minister, believes this flexible exchange rate regime, introduced as a temporary expedient after tha devaluation, should remain. "My thoughts on this have evolved over the last three years," he says. In the first place, he argues, the peso has been more stable than expected, whila high capital mobility around the world seems to demand either floating exchange rates or a very strong fixed rate system, such as a currency board.

When Asian currency turmoil shook the world's markets in October and November, troubling Brazil's pegged exchange rate regime, the peso took the strain. Partly as a result, and in the absence of big fiscal and current account imbalances, Mexico seems to be the big Latin American economy best shielded from international turbulence.

The pace of the recovery since 1995 has been aided by a helpful international economic climate. Strong growth in the US has been excellent news for Mexican exporters. Receptive international financial markets have also allowed the government to refinance quickly its borrowings from the US government, which arranged a $50bn international bailout in 1995. It has also helped the government to ease its debt repaymants schedule over the next three years.

This year's Asian troubles suggest that international climate may become less benign in 1998, while expectations of slowing US growth may also start to affect Mexican exports. Moreover, the economy, having taken up the slack created by the 1995 recession, is beginning to hit capacity constraints. All these factors suggest some easing of growth next year to, the official forecast suggests, 5.2 per cent.

Though this is faster than anything achieved in the early 1990s, most economists still say it is too early to argue that the growth potential of the economy – growth that does not develop excessive current account deficits – has increased. Mexicans will not need reminding that their economy always looks at its best in the middle of a presidential term and that tha last four presidencies, going back to 1976, have ended in financial crisis.

As Mexico's one party system undergoes apparent transition to a multi-party state following July's Congressional election victory for the opposition, political uncertainties ara likely to remain prominent economic concerns.

One important decision expected from Mr Zedillo by mid-December is that of who will take over from Miguel Mancera as president of the autonomous central bank. This individual will guide monetary policy over tha crucial election year of 2000 and the possibla transition to an opposition government.

Even assuming that Congress and the administration resolve their budget impasse before the end of the year, there are 10 electoral contests for state governorships in 1998 which have the potential to generate conflict. Guillermo Valdés of the consultants GEA notes that the electoral rules developed by Mr Zedillo's government for federal elections – and which succeeded in making July's elections largely free of conflict – have usually not been adopted at a local level.

Moreover, tha race for the presidency in 2000 appears likely to start soon, raising the possibility that it will not be long before the current administration – already criticised for showing littla initiative this year bayond getting the budget passed – becomes a lame duck.

"We have an excellent government in the management of the macroeconomy but it's a government that doesn't care about anything else," says Luis Rubio, director of Cidac, a Mexico City think tank.

ECONOMY • by Stephen Fidler

Few signs of vulnerability

Mexico has rebounded quickly and looks set for strong growth

Few expected Mexico to rebound so quickly when the country was in the midst of the 1995 economic crisis which saw its economy contract by more than 6 per cent.

But this year without any help from bank credit, which is still depressed after the 1995 banking crisis, the economy is expected to expand by 7 per cent, helping to create some 800,000 jobs. Consumption, depressed since 1995, has also begun to pick up, helped by a recovery in the level of real wages.

Seven per cent growth, which follows a 5 per cent expansion in 1996, is not likely to be sustained and economists are still cautious about whether the long-run ceiling for growth is now higher than in the early part of the decade. But next year growth is still expected to exceed the rates of the early 1990s.

The government is forecasting 1998 growth at around 5.2 per cent while inflation is expected to fall to about 12 per cent from about 16 per cent this year. The current account deficit is officially forecast to expand to about 2.3 per cent of gross domestic product, from 1.6 per cent this year.

While a majority of economists' predictions suggest that 1998 growth will be higher than the government is forecasting, some see it as an overestimate. Alfredo Thorne, an economist at JP Morgan in Mexico City, believes 1998 growth will be closer to 4.5 per cent.

Mr Thorne argues that parts of the economy will be hitting the limits of current capacity by next year, while a tight labour market will give workers the opportunity to recoup some of the fall in real wages that occurred with the 1994 devaluation.

The Asian currency crisis will also increase price competition for certain Mexican exports, such as steel, apart from any effects transmitted through the international financial markets. Finally, the US economy – the destination of an extraordinary 85 per cent of Mexican exports in the first half of this year – seems set to slow down in 1998.

Mexican officials are conscious of the dangers of this heavy reliance on the US economy. The 85 per cent figure compares with about 69 per cent in 1991. "We are one 20th of the size of the US and everything we can produce just gets soaked up," says one finance ministry official. "We have to do two things: diversify our export markets and increase the value we add to our exports."

This expansion of exports to the US, together with the rapid growth of sales to Canada from a very much lower base, is evidence of the continuing integration of Mexico into the north American economy following the inception of the North American Free Trade Agreement in 1994.

> The danger is over-reliance on the US economy

Further evidence comes from the high levels of foreign direct investment (FDI), much from the US, that is flowing into Mexico.

This year the FDI figure is expected to reach a record $11bn-$12bn, which includes a significant number of takeovers that do not represent new plant and machinery, compared with overall capital inflows of $16bn for the year. Next year, the government expects FDI of about $10bn.

The overall picture is of an economy which shows, for the moment, few signs of vulnerability. This picture is reinforced by the approach to fiscal policy. Barring disastrous setbacks for the government in Congress, the 1998 fiscal deficit is expected at 1.25 per cent of GDP.

But this implies no expansionary influence on the economy, says Mr Ortiz, because it essentially covers the cost of the government's social security reform. The cost – that of paying pensioners in the absence of contributors who have switched to the private sector for pension provision – is expected to be 1.46 per cent of GDP in 1998.

Some observers are also taking comfort from the fact that the floating exchange rate regime, to which Mexico was moved forcibly after its 1994 devaluation, has been satisfactory.

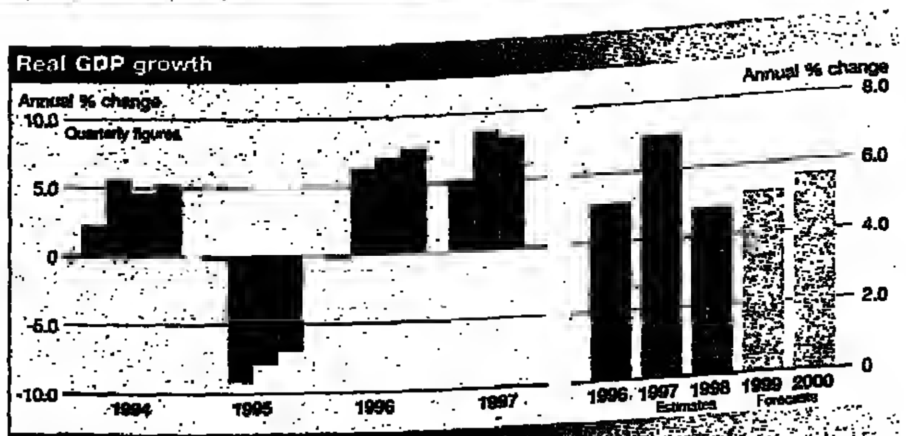
It appeared to prove its worth in the middle of the currency turmoil that followed the Asia crisis in October. In a couple of days the peso fell from 7.72 to the dollar to 8.7 (after once dropping through 9), before settling at about 8.2. This was a welcome development for exporters who were increasingly worried that an exchange rate over-valuation was in the offing.

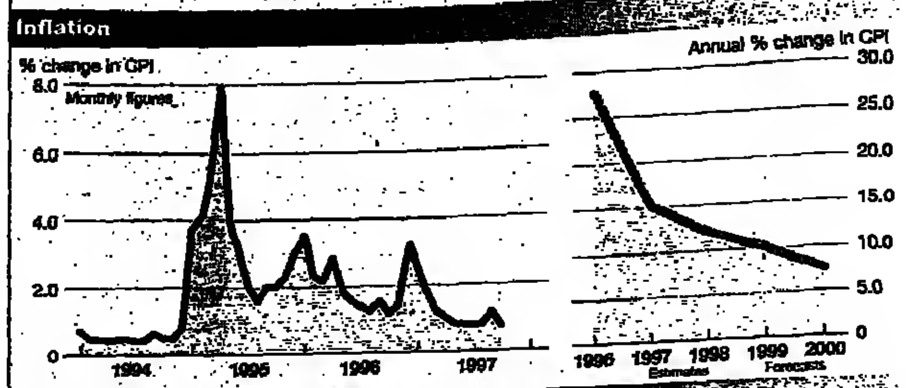
The experience since 1995 has led Guillermo Ortiz, Mexico's finance minister, to the opinion that the floating rate regime should stay in place indefinitely. "When we started the floating rate regime, we viewed it perhaps as a transitory regime towards one that we could envision giving more certainty as to the future valuation of the exchange rate," he says.

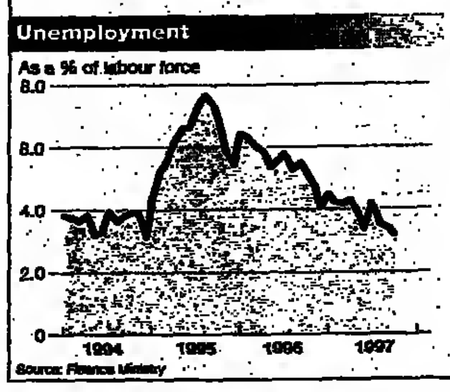
"Now I've changed my mind for two reasons. First, this regime has proved much more stable than I thought it would be in early 1995; and second, because the extreme capital mobility we are seeing in the world suggests that there are two kinds of currency regimes that are viable."

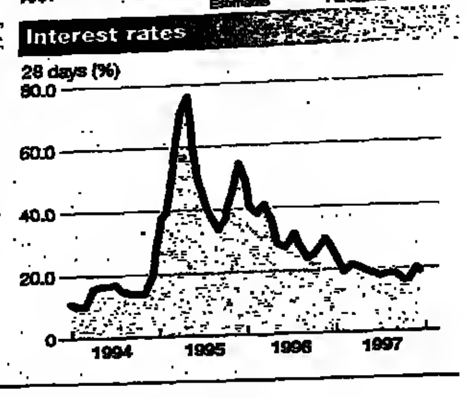
The first is a monetary board arrangement, which fixes a currency against another and allows no scope for an independent monetary policy because it is determined by flows of funds in and out of the economy.

The second is the free floating regime that Mexico has been pursuing. Mexico also allows interest rates to find their own levels while the central bank targets monetary quantities.









Safe hands: Zedillo (right) and Ortiz have steered the economy through the 1994 financial crisis to a position of strength

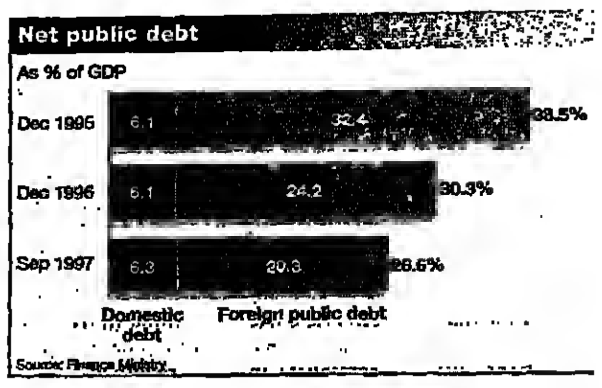
Tony Andrews, Rod McNeil

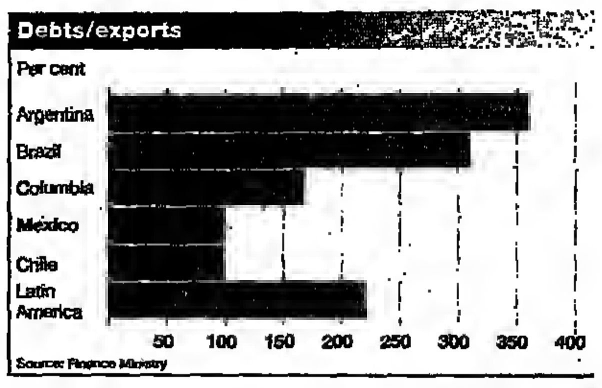
GOVERNMENT FINANCE • by Stephen Fidler

Up and running on re-set bones

New structures and buoyant markets have eased the public debt picture

The Mexican government, helped by two years of favourable conditions in the international financial markets, has pushed one important aspect of its 1995 nightmare into the past. Then, facing billions of dollars in debt repayments, the government had to call in the US government and the International Monetary Fund.





The US has long since been repaid and the spreading out, since 1995, of the maturities of the government's debt have made it secure for some time from all except the most extreme international market turmoil. Mexico's debt and debt servicing indicators have also improved, helped by a sharp rise in exports.

In 1995, the government had to make more than $41bn of repayments. Next year, the public sector faces just less than $10bn of maturities, slightly more than half of which are of debt raised in the international financial markets, on top of $1.1bn in repayments to the IMF.

In 1999, scheduled repayments to the IMF rise to $5.2bn but other maturities for the public sector amount to about $7bn, less than half of which is market debt. In the election year of 2000, public sector debt repayments amount to $6.6bn and IMF maturities to $3bn.

The government has also established a $2bn-$2.5bn standby line of credit from 31 international banks – some of which were less than enthusiastic – in case markets become turbulent over this three-year period.

Just as important, given the volume of short-term dollar linked debt that had piled up in 1994 and deepened the devaluation crisis, the amount of government short-term debt held by foreigners has dropped significantly. Holdings of Cetes, short-term peso government paper, has been at around $3bn-$4bn since January. The risks to foreign investors posed by the country's floating exchange rate regime has discouraged them from buying the paper.

Some bankers say the maturity structure is so sound the government should now be able to look at other issues. "In the past maturity was more the issue – now it is more the cost because they have a good maturity structure," says Eduardo Cepeda, managing director in Mexico City of JP Morgan, which has been advising the government on its debt since 1995.

One question concerns the government's approach to its outstanding debt in Brady bonds, into which the country's 1980s restructured bank debt was finally converted at the start of this decade. The opportunities for another exchange have been opened up by the price collapse of all Brady bonds since October. The first such exchange was in April 1996 in which $1.75bn in 30-year global bonds was issued in exchange for Brady debt.

Brady bond exchanges benefit the government by freeing up collateral in the form of US Treasury bonds that are tied to the Brady bonds. In addition, investors are compensated by higher returns and the greater potential for price increases in a rising bond market.

Bankers say the government is not completely at ease with how the exchanges are managed since it is left prey to adverse market movements during the period when the auction takes place. Its 1996 exchange was viewed as slightly disappointing. The government is, therefore, likely to favour the more discreet process of buying back the Brady debt in the market if it regards the conditions as right.

Some bankers believe a variation on the exchange mechanism would be beneficial and successful. "If they wanted to be more aggressive they could retire the Bradys sooner than expected," says Mr Cepeda.

FOBAPROA • by Leslie Crawford

Debt burden drags on economy

The peso crisis is not over while the government is stuck with $45bn of bad loans

The bailout of Mexican banks, with the government assuming $45bn of bad loans to keep the financial system afloat, has proved the most intractable legacy of the 1995 economic crisis.

The crisis, marked by the devaluation of the Mexican currency, a deep recession and triple-digit interest rates, triggered an avalanche of loan defaults which threatened to sink the country's recently-privatised commercial banks. To keep banks solvent, the government assumed almost half the loans in the banking system and placed them in a central bank trust, known as Fobaproa.

More than two years after the rescue operation finance officials are still agonising over what to do with the mountain of bad loans, unpaid mortgages and repossessed real estate in government hands.

Initially, the government believed it would be able to recoup part of the cost of the bank rescue – officially estimated at 12 per cent of 1997 gross domestic product – by auctioning the assets on Fobaproa's books. But the difficulty in marshalling hundreds of thousands of poorly-documented credits and the absence of a secondary market for trading bank loans in Mexico, led Fobaproa officials to discard the auction scheme.

The lack of progress in dealing with the assets in Fobaproa's custody has begun to worry economists and bankers. It has also become a political issue since opposition parties won control of Congress in elections last July. The Chamber of Deputies has set up an inquiry into the terms of the bank rescue, popularly believed to have benefited banks at the expense of debtors.

Militant debtors' groups have gained tens of thousands of followers since the 1995 crisis with campaigns calling for partial debt forgiveness and more lenient repayment terms on mortgages and consumer loans.

For Luis Rubio, director of the Centre of Development Studies, Cidac, in Mexico City, Fobaproa's frozen assets represent a waste of resources which is holding back a fuller economic recovery.

"There is a huge pile of potentially productive assets locked in the central bank trust," Mr Rubio says. "While uncertainty remains over what the government intends to do with the bad loans in Fobaproa's portfolio, companies who are in debt to Fobaproa have no access to credit and cannot invest."

"The Fobaproa assets are a major knot in the economy," one foreign banker says. "The economic crisis destroyed the capital structure of many companies. It would be cheaper for the government to take the bull by the horns, absorb the fiscal hit and reduce debt to put companies back to work."

Government officials, however, worry about the moral hazard of blanket debt forgiveness. In Mexico's highly politicised environment, a corporate sector ballout would smack of favouritism and lead to charges of corruption.

As an alternative, Javier Arrigunaga, Fobaproa's director, says the government is considering the sale of part of the bad loan portfolio back to the banks to encourage more equitable debt agreement between creditors and borrowers.

"What we are exploring right now is how this discount can benefit the debtor," Mr Arrigunaga says. "The sooner we can shift these loans back to the banking sector, the sooner consumers and businesses will be able to start borrowing again."

In theory, commercial banks remained responsible for managing their bad debt portfolios after they were transferred to Fobaproa. But there was little incentive to do so.

Starting in the third quarter of 1998, however, banking regulators say they will require commercial banks to begin provisioning against bad loans sold to Fobaproa.

Mexican banks have already been required to set aside almost $8bn against non-performing assets which were not transferred to the government. But Mr Arrigunaga says the additional provisioning – equivalent to 2.5 per cent a year of the amount Fobaproa paid the banks to take over the loans – might encourage banks to be more diligent in the management of the bad loan portfolio sold to Fobaproa.

To escape the wrath of debtors' groups, Mr Arrigunaga plans to start transferring the management, collection and sale of debts to private sector credit servicing companies next year. These may pay an equity stake to take over the loans and will be expected to share whatever they recover with the government. The first package of 6,000 loans, valued at $300m, is expected to be tendered in April.

Of the $45bn of assets in Fobaproa's books, about $23bn correspond to hundreds of thousands of consumer credits, mortgages and loans to small businesses which the government hopes to sell back to the banking sector or to asset managers. The remaining $22bn are corporate loans, commercial paper and other kinds of debt pertaining to 4,000 subsidiaries of 550 big corporations. These require separate treatment.

In the case of large corporate loans, finance officials say they are devising schemes to refinance or capitalise debt to prepare companies for sale. Mr Arrigunaga, however, warns that, like other banking crises in Latin America, the bad debt legacy of Mexico's peso crisis will take many years to solve.

FINANCE • by Henry Tricks

Party likely to lose its fizz

If, as predicted, foreign credit slows, a funding drought threatens continued growth

The miracle about Mexico's vibrant economic growth this year is that it has occurred witb barely any new credit from the country's bed-ridden banking system.

Even as orders came pouring in, the bulk of Mexican firms were either still too entangled in debts after the peso crisis to think of getting bank loans, or the banks they approached were gun-sby after their disastrous experience of lending prior to 1994.

In response Mexico's top exporters have gone abroad to raise money.

Turmoil in international markets stemming from the economic woes of south east Asia and Brazil put a virtual halt to that, however, and now companies are wondering where they will hunt out funding next year to keep up the pace of expansion.

Until the Asian troubles, it had been a good year for tapping the markets abroad. Lending to Mexican corporate borrowers in international debt markets surged to more than $5bn in 1997, according to Wall Street estimates, while global equity offerings were around the $700m mark.

Bankers say funds raised in international markets were invested heavily in modernising plant and equipment at home, even at a time when factories were operating fairly efficiently because of investments prior to the crisis. Tbat helped growth to a level expected to top 7 per cent this year. According to the Finance Ministry, the motor of growth has heen private investment, which increased 25 per cent in real terms in the first six months of the year compared with the same period in 1996. "I've never seen a number like that," Guillermo Ortiz, the finance minister, says.

Foreign firms, with an eye on Mexico's thriving export sector, reviving local consumer market and trade privileges embedded in the North American Free Trade Agreement, also sought to cash in. As a result, foreign direct investment soared to $11bn-12bn, according to government figures, as multinationals invested in telecommunications, hought cigarette makers and set up in-hond assembly plants, known as *maquiladoras*, to make everything from televisions to golf clubs on Mexico's hustling horder with the US.

"The reason we are having this dynamic economy with a contracting banking sector is that hig firms and even medium-to-large firms can finance themselves in international capital markets," Mr Ortiz says.

Equally, large companies have increased financing to suppliers, enabling them to hoost production. "A third force, of course, is that firms are being financed out of not paying tha banks."

Since the Asian crisis, however, access to international capital markets has stalled, suggesting industry will have to look elsewhere for credit next year.

According to Mr Ortiz, bank credit should revive soon and he is anticipating at least another $10bn in foreign direct investment in 1998.

But it will clearly take a Herculean effort to get the hulk of Mexican firms back into the black. Bankers estimate that some 60 per cent of the economy has capital needs and that most small companies are probahly withholding investment because of the large debts they still owe to banks.

"The foreign investors and big corporates are on an equal footing. Many small companies are not investing because they have not reconciled their debt problems. What's the point of throwing good money after bad?" says Eduardo Cepeda, managing director of JP Morgan's Mexican banking group.

And the $45 billion of corporata, mortgage and consumer debts held by the bank insurance fund, Fobaproa, taken off banks' hands as part of a bailout when the financial crisis rendered millions of Mexicans unable to pay their debts, is certainly no small matter.

Bankers say returning tbose loans to viability as soon as possible is crucial to getting the system fully back on to its feet. "The Fobaproa solution is very important and it'a long overdue," a says one.

In the meantime, while local banks lick thair wounds and remain reluctant to lend, a new breed of creditor has antered the banking system who is already seeking out mid-level corporate clients for peso loans: foreign-owned banks, such as Spain's BBV-Probursa and Santander Mexicano and US bank Citibank's Mexican affiliate.

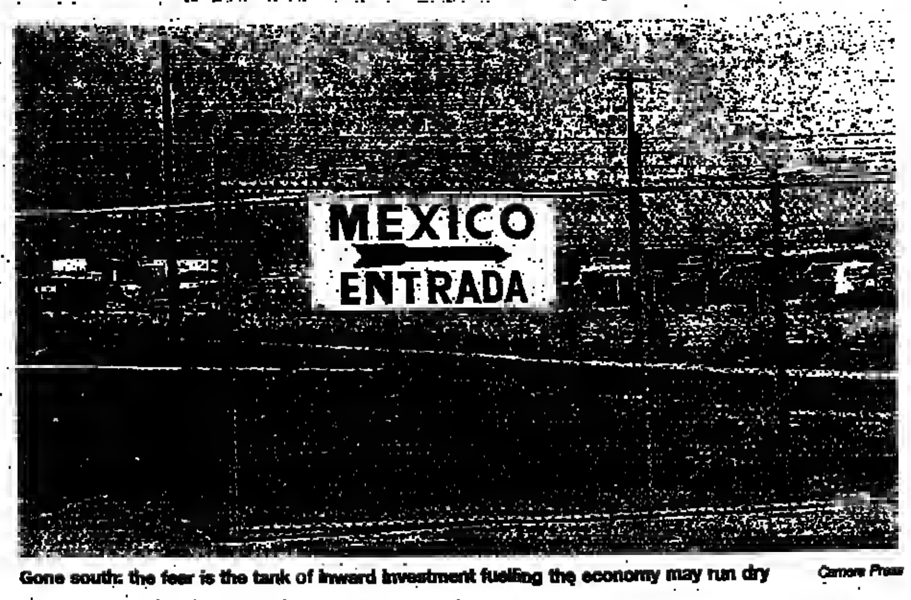
Miguel Navas Moreno, head of BBV-Probursa, says his bank has set up 25 offices in major cities around Mexico aimed at lending to medium and small firms that survived the crisis, or start-up companies in need of working capital.

Similar efforts on a smaller scale are being made hy international and Mexican venture capital funds to scout out viable mid-sized anterprises whose only handicap is their inability to raise money because of the credit drought.

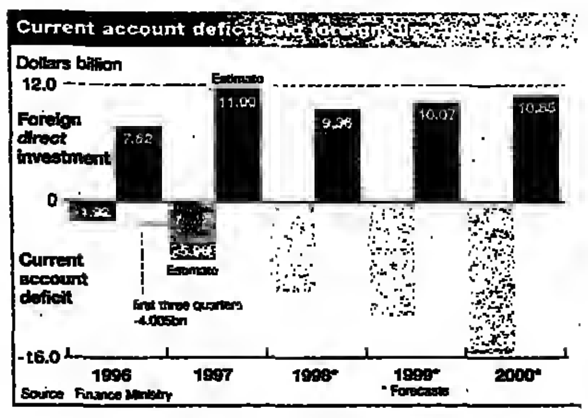
Eduardo Uribe, director at Standard and Poor's, the US rating agency, says a disappointing number of Mexican companies sought ratings for access to the domestic debt market in 1997 - a total of eight, compared to 25 that sought to tap international markets. He expects the ratio to reverse next year but the peso debt market is still considered too shallow to ahsorh a raft of new issues, despite the launch of private pension funds earlier this year.

In the big leagua, equity issues amounting to more than $1bn are in the pipeline for early 1998, the result of issues planned earlier this year that were sideswiped by turbulence in international markets. They are thought to include airline holding company Cintra, broadcasting giant Televisa and a retailing arm of Grupo Carso.

International bond issues by Mexican borrowers are seen as sluggish, especially if the market is overcrowded with Asian horrowers, according to analysts at Merrill Lynch in New York. A lot hinges on how soon financial markets stahilise, says Ed Cabrera, Merrill's chief Latin America strategist. "Without access to global markets, Mexico's rapid economic growth is questionable."



Gone south: the fear is the tank of inward investment fuelling the economy may run dry Camera Press



CAPITAL • by Henry Tricks

Foreigners add venture

Capital from overseas is filling the investment void left by timid domestic banks

One bright spot for companies starved of credit after the 1994 peso crisis has been the arrival of international venture capitalists in Mexico.

Private equity funds have turned their sights on the country in the last two years, providing what industry executives estimate is between $500m and $1hn in capital to medium-sized firms. The deals range from the purchase of stakes in hi-tech media companies to buy-outs of small niche firms. In almost all cases the lure for the venture capitalist is the promise of fat returns if the stake can be sold within a few years.

For the targeted companies, many of which bave been in the same family for generations, the opening of their businesses to foreign investors has its costs: the firms are scrutinised closely, inefficient managers are removed and ownership stakes are diluted.

Bankers say the majority of firms in the Mexican economy are still short of working capital either because of escalating debts in the aftermath of the crisis or because they cannot afford the rates at which banks are prepared to lend. Credit-starved companies are particularly eager for capital to cash in on the booming economy. As well as capital, private equity funds can provide the managerial advice companies need to expand their businesses.

"Mexican companies are finally looking at private equity funds as a viable source of financing," says Alexander Rossi of Communications Equity Associates, a New York-based investment bank which has brought together Mexican media and telecommunications firms and private equity investors. "The banks are rarely receptive to financing Mexican companies and, when they are, it's under such tough conditions the private equity groups are more attractive."

Some of the companies that have turned to venture capitalists are household names, while others are little-known companies operating in niche markets.

MVS Television, a private company that pioneered pay television in Mexico, was in the midst of a big investment drive to launch satellite-beamed direct to home services when it was caught by the peso crisis. MVS's peso debt rocketed with the sharp increase in utterest rates in 1995, while a deep recession was causing it to lose clients.

Ernesto Vargas, president of MVS Television, says: "We needed a partner to help us retire some of our debt and provide us with working capital to continue our investment in DTH." MVS turned to Hicks, Muse, Tate and Furst, a US-based private equity fund which has becoma the largest source of venture capital in Mexico, according to bankers.

The fund provided $120m to strengthen MVS's capital structure and made a commitment to remain partners in the venture for two to three years, according to Mr Vorgas. He says MVS is planning to go public next year, at which point Hicks, Muse, Tate and Furst will be able to realise part, or all, of lis investment.

Most deals are smaller. Advent International, an affiliate of the $3.5hn Adveot group of funds in Boston, has some $45m invested in Mexico, part of which is in a chain of duty-free stores that the fund believes will benefit from a steady rise in the number of airport users. The fund bas so far received enquiries from more than 100 firms, according to Juan Carlos Torres, Advent's manager in Mexico, but has invested in only two: the airport boutiques and a plant assembling golf clubs on the US border.

Mr Torres says Advent typically keeps an investment for about five years and that the company is considering taking Mexican firms to the US Nasdaq market, where there is more liquidity, instead of issuing stock locally. Negotiating the exit strategy - bow to sell the stake - is the crucial issue for most funds investing in Mexican firms because of wbat is perceived as a fairly illiquid market.

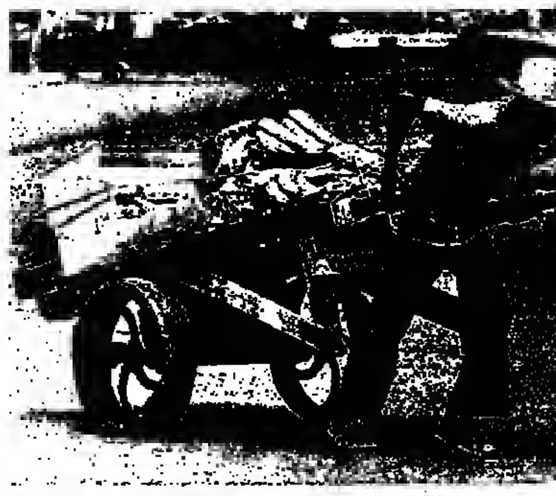
"There is a saying here: 'First you look for the way out, then you look at how to get in'. It's not our business to stay in these companies for long," says Alejaodro Rodriguez, whose fund is part owned by Mexico's second largest bank Bancomer. Bancomer's fund, known as Inversiooes Privadas Latinoamericanas, is hoping to attract pension fund money from the US and Europe and could marshal up to $200m for investments in Latin America, according to Mr Rodriguez. Another fund, TCW/Latin American partners in New York, has some $80m-$100m earmarked for Mexico. Mario Baeza, TCW's chief executive, says be is attracted by Mexico's export poteotial and growing domestic economy.

The main drawback for medium-sized companies is finding a market for initial public offerings. An intermediate stock market exists in Mexico but Mr Baeza says few foreigners know about it. And until Mexico's nascent pension fund industry is authorised to invest in stocks, the Mexican market remains shallower than Brazil's.

INSURANCE • by Leslie Crawford

Improving coverage

The fledgling market's potential is reflected in the number of new entrants



Over exposed: just 20 per cent of workers have life assurance

Mexico's insurance sector contracted by 20 per cent after the 1994 peso crisis as middle-class families cancelled policies they could no longer afford.

It was a blow from which Mexico's 60 insurance companies have only just begun to recover. In addition to the loss of customers, insurance groups also faced soaring claims due to rising crime.

"We have had to raise premiums 2.5 times since 1994 to cover the cost of claims related to theft," says Javier Foncerrada of Seguros Inbursa, which belongs to Grupo Carso, Mexico's largest conglomerate.

Although the crime wave has not abated, insurance companies now require corporate clients to take special precautions, particularly when transporting easily-stolen consumer items such as cigarettes, food, clothing and white goods.

Inbursa, which insures Cigatam, a Carso company that manufactures cigarettes, says Cigatam's trucks now travel in convoys for greater protection against robbers. "We carry out security checks on drivers and advise Cigatam not to inform them of routes before the start of the journey," Mr Foncerrada says.

Even before the economic crisis, the insurance business was underdeveloped in Mexico. According to the Washington-based International Insurance Council, premiums accounted for only 2.3 per cent of Mexico's gross domestic product in 1996, compared with nearly 8 per cent of GDP in the US.

The low penetration is partly explained by the 1995 recession and collapse in real wages. But other factors have contributed to the slow development of the business.

Insurance is not compulsory in Mexico, although the government may introduce mandatory car insurance in Mexico City next year. There are no tax incentives for policy holders and legal disputes leading to large claims are uncommon.

According to the Mexican Insurance Company Association, only 20 per cent of the workforce holds life insurance; less than one-quarter of cars are insured and only 6 per cent of households.

Nevertheless, the growth potential of the insurance business in a country of 90m inhabitants is reflected in the number of new entrants since Mexico deregulated financial services in the early 1990s.

No fewer than 26 foreign insurance companies have set up business in Mexico, either in partnership with local banks and insurance groups, or on their own.

Mexican banks have also begun to compete with established insurance groups by selling insurance products through their large branch networks. Mexico's two largest banks, Banamex and Bancomer, branched out into the insurance business after the 1995 crisis severely limited the scope of their traditional lending activities.

Banamex went into a joint-venture with Aegon of the Netherlands and Bancomer acquired Vamsa, a small insurance company. Since its formation in 1995, the Banamex-Aegon joint venture has grown rapidly and now ranks among Mexico's top 10 insurance companies.

Luis Barrios, head of ING Seguros, the Mexican insurance subsidiary of the Dutch financial group, says his company is targeting Mexicans with incomes of \$2,000 a month or more. "We are introducing new products, such as life insurance policies linked to unit-trusts."

Insurance companies are also preparing for the expected growth in demand for pension annuities and private health insurance.

Since 1997, Mexicans have been given the option of staying with the state-run social security system or contracting an individual retirement plan with a private pension fund administrator, known as Afores. On retirement, policy holders can either receive a lump sum or buy an annuity from an insurance company. "Pension annuities will become an excellent business in the future," Mr Barrios says.

Insurance companies are also planning to enter the private health care market.

At present, they offer private health plans to the tiny fraction of the population which can afford them. But companies, such as Seguros Comercial América, Mexico's largest insurance company, have been stung by tha escalating costs of medical claims.

"There are only 200 private hospitals in Mexico and they charge what they want because there is such a huge demand for the services they provide," says Klaus Wiegandt. who heads Seguros Comercial América's health-care project.

"We decided that the only way to control costs, and to offer affordable medical coverage to our customers, is to provide the services ourselves."

Seguros Comercial América, which belongs to the Pulsar Group, has acquired a 49 per cent stake in Médica Sur, a big private hospital in Mexico City. In addition, Mr Wiegandt says, Pulsar plans to build 20 short-stay surgery centres and several out-patient clinics.

Seguros Inbursa says it will invest in new hospitals with a view to starting its own US-style Health Maintenance organisation (HMO). When it does, Grupo Carso's 110,000 employees – at Telmex, the privatised telecommunications company, Cigatam and many retailing and manufacturing concerns – are likely to be Inbursa's target customers.

"Every insurance company in Mexico is making plans to enter the health care business," Mr Foncerrada says. "There will be more hospitals and more competition. We also believe that the government will privatise its medical services."

At Seguros Comercial América, however, Mr Wiegandt sounds a note of cantion. Private health care in Mexico is in its infancy, he says, and to attract the custom of large corporations, newly formed HMOs will first have to prove they are able to provide the gamut of services offered by Mexico's Social Security Institute – and at a lower cost.

"Big Mexican corporations are unlikely to opt out of the social security system before HMOs can prova they are more cost-effective and have an established track record," he says.

Many analysts believe Mexico'a insurance sector is due for a shake-out.

"There are too many companies for the aize of tha market, particularly when you consider that the four top companies hold 75 per cent of the business," says John Nigh, a principal with Tillinghast, Towers and Perrin in Atlanta, Georgia.

BANKING • by Leslie Crawford

Out of the wreckage

The sector is clawing its way back after its complete failure in the peso crisis

In the painful three years since the peso's devaluation, Mexico's banking sector has been radically transformed, even if it has yet to emerge, phoenix-like, from the ashes of the economic crisis.

Of the 18 domestic banks privatised in 1991 and 1992, only eight remain in the hands of Mexican investors. A dozen buckled under the weight of loan defaults and were placed under central bank intervention. Four were acquired by international financial groups after Mexico's nationalistic banking laws were reformed in 1995 to allow foreigners to take over ailing domestic banks.

Since then, a further 13 international financial groups have set up business in Mexico, launching an era of unprecedented competition in the domestic financial markets. Before 1995, Citibank was the only foreign bank in Mexico.

The banking crisis, triggered by rash lending policies in the early 1990s, poor regulation and the financial turmoil that followed the peso devaluation, was contained at a heavy cost to bank shareholders and Mexican taxpayers.

The government took over \$45bn of bad loans – almost half the loans in the banking system – to keep Mexican banks solvent. It estimates the rescue operation will cost about \$50bn, or 12 per cent of 1997 gross domestic product, over the next 10 years.

"We had a systemic problem. It was not a question of one or two rotten apples," says Eduardo Fernández, Mexico's chief bank regulator. "Had we allowed a single bank to fail, we would have triggered a run on the banking system, with worse consequences than we face today."

Mexico's financial crisis also exacted a heavy toll on bank shareholders who were required to raise one peso of fresh capital for every two pesos of bad loans sold to the government.

Roberto Hernández, chairman of Banamex, Mexico's largest bank, estimates the recapitalisation of Mexican financial groups since 1995 has cost the private sector 116bn pesos - three times the nominal peso value paid for the banks that were privatised in 1991 and 1992.

He adds that shareholders have injected 53bn pesos in fresh capital while the remainder has gone to provision against non-performing loans which were not sold to the government's central bank trust, Fobaproa.

In spite of the \$45bn of unwanted assets sold to Fobaproa, Mexican banks remained burdened with 103bn pesos of bad loans in mid-1997, according to statistics published by tha National Banking and Securities Commission.

The deadweight of non-performing assets, equal to 13.2 per cent of the banking system's total loan portfolio, has put a break on the resumption of lending activities. For this reason alone, the banking system remains the weakest link in Mexico's economic recovery.

"Murky loan workout criteria and slow liquidation processes will delay the banks' financial recovery and capacity to extend credit," Standard & Poor's, the US rating agency, reported in October. "The process of developing a banking system that can efficiently intermediate funds at a level commensurate with the economy's needs will take years."

> We had a systemic problem – it was not a question of one or two rotten apples

Bank credit fell by more than 50 per cent in real terms in 1995 and 1996 while 1997 has seen negligible credit growth, despite record levels of investment and economic growth of more than 7 per cent this year.

The apparent riddle of economic growth without domestic credit is partly explained by the skill of Mexican exporters and big conglomerates in tapping the international capital markets. Merrill Lynch, the US investment bank, estimates Mexican corporates have raised \$5.7bn abroad this year.

The North American Free Trade Area, which Mexico joined in 1994, has accelerated the integration of large Mexican corporations into the US financial markets.

Supplier credits, intra-company lending and equity and bond placements have also contributed to the decline of traditional bank credit as a source of working capital for Mexican companies.

At the National Banking and Securities Commission, Mr Fernández says he is relieved domestic banks have adopted a prudent approach to the resumption of lending.

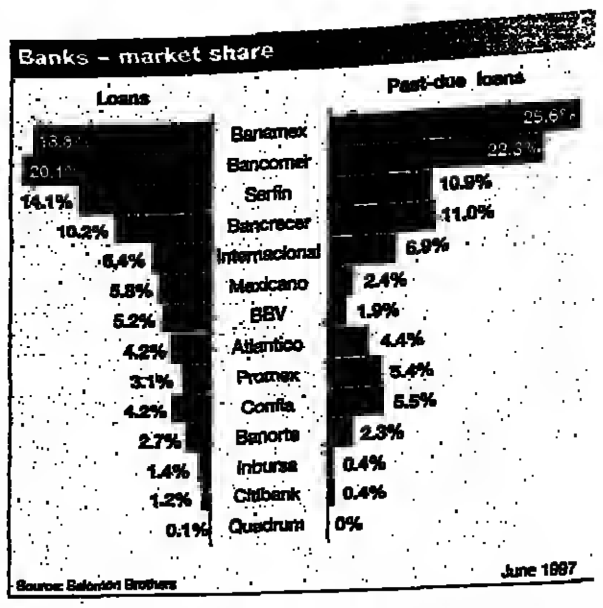
But he acknowledges that economic growth could be hampered by a dearth of domestic credit. For their own good, Mr Fernández says, banks need to resume lending. "While credit remains stagnant, the banking business will remain fragile," he says.

The predicament facing banks in Mexico, however, is far from uniform.

Foreign banks, unburdened by bad loans, have been more aggressive in signing up new customers and poaching corporate clients from their weaker Mexican rivals.

Banco Bilbao Vizcaya, the first foreign bank to acquire a Mexican bank, Probursa, in 1995, says it has signed up 800,000 new customers in 1997 alone and has a working relationship with about two-thirds of Mexico's top 400 companies. The Spanish bank has also set up 25 offices in Mexico's main cities to attract small and medium-sized businesses.

"Mexican banks have not been aggressive enough in identifying new clients and lowering their lending rates," says Miguel Navas, BBV's managing director in Mexico. "But survival in Mexico's competitive banking sector will not depend on whether a bank is owned by Mexicans or by foreigners. Success will hinge on who has the best management, the most efficient operations and the best banking strategies."



The competition posed by foreign-owned banks has led some Mexican banks to restructure their businesses or seek alliances with stronger partners.

Banacci, the financial group which owns Banamex, says it is in talks with Goldman Sachs, the US investment bank, with a view to launching a joint-venture that would merge Banacci's brokerage house, Accival, with Banamex's investment banking activities.

Most Mexican banks have also begun to offer big discounts on mortgage loans to persuade lapsed debtors to clear their arrears.

Bill Sutton of the Bank of Nova Scotia, which took over the management of Inverlat, Mexico's fourth-largest bank, after its collapse in 1995, hopes 70 per cent of Inverlat's mortgage portfolio will be current by March 1998 with a combination of debt forgiveness and loan restructurings.

Inverlat, however, is in a privileged position. The government has retained an 81 per cent shareholding in the bank and has undertaken to absorb loan losses as well as to maintain Inverlat's capitalisation at 9 per cent of risk-weighted assets.

The fate of smaller Mexican banks, burdened by bad loans and starved of capital, appears to lie in merging with bigger domestic rivals or being acquired by a foreign party.

Three such, Atlántico, Bancrecer and Promex are expected to be merged into stronger financial groups next year.

"In the new competitive environment, I do not see how small regional banks can survive," says Mr Fernández. "A further consolidation in the industry is inevitable."

PRIVATE PENSIONS • by Henry Tricks

Blitz points Afore-wards

Wherever they look, Mexicans are being urged to secure their future in old age

Private pension funds were launched in Mexico earlier this year with such a media blitz it looked as if Mexicans were being sold cosmetics, not stodgy retirement savings schemes. Some 10 months later, a sceptical public has been bombarded into submission.

According to Consar, the pensions regulating body, almost all of the 11m insured workers eligible to take part have joined one of Mexico's 17 private pension management firms, known as Afores.

That is considered a startlingly strong statistic in a business the government has pinned its hopes on to avert bankruptcy in the state-run pension scheme and to boost low savings rates.

The numbers are small compared to the total workforce of some 30m and voluntary contributions by self-employed workers have been minimal.

But the speed with which workers have entrusted their retirement savings to private funds is no mean feat in a country where banks and financial markets became almost dirty words following the 1994 peso crisis.

Humberto Allendes, head of Afore Santander Mexicano which dispatched 5,000 brightly-dressed sales staff in an eye-catching campaign to attract workers, believes a potent mix of pounding the pavements and "guerrilla advertising" proved successful.

Some 60,000 sales staff fanned out across Mexico when the recruitment drive was at its peak. Some Afores focused more on advertising and for months the airwaves abounded with glitzy ways to sell "a brighter future".

"This is not a product that is bought, it's one you have to sell. At first the attitude was 'who's going to fleece us this time?'," Mr Allendes says.

But by mid-year some 60,000 workers were signing up each day, according to Consar. The rate was faster than in other Latin American pension markets and almost twice as much as had been expected.

The response has clearly been a relief to the government. It used a ruling party majority in Congress in 1995 to push through the new pension law only to draw fire from opposition parties, unions and the press afterwards, especially over high commissions.

Fernando Solís, the head of Consar, argues that commissions, averaging around 1.5 per cent of a worker's salary, are, in fact, lower than in other Latin American private pension systems, except for Bolivia.

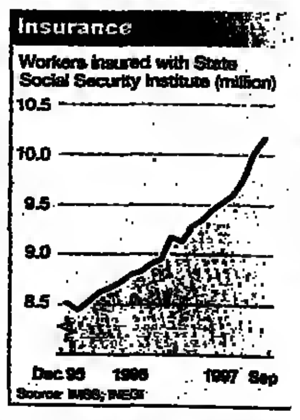
Helping to hold down commissions is, he points out, the once-a-year limit on the number of times a worker can switch Afores. This keeps a lid on advertising costs.

He wants to give pension funds the opportunity to increase returns by allowing investment of some 20 per cent of assets in the stock market from mid-1998. But not all executives favour a change yet, fearing the industry is still too vulnerable to political attacks to increase risk. "The healthiest thing would be to remain conservative for at least three years," says Mr Allendes.

Ralph Peters, head of Afore Bancomer and leader of the industry lobbying group, issues a similar warning.

"In order for the system to survive and be free of opposition attacks it is better to have conservative investments. But we would definitely like to see funds moving into stocks eventually because it's an important way for the stock market to mature."

Funds are now able to invest only in Mexican government securities and highly-rated corporate paper. The corporate debt market is still thin (Consar says only some nine firms have eligible peso paper) but officials say potential issuers, especially banks, are showing interest.



Government peso debt remains short-term – the vast majority matures in less than a year. But with an eye on the Afores market, the country recently issued new three-year paper known as the Bonde 91 that guarantees a quarterly coupon at least equal to inflation. It has quickly found favour in the market although analysts say it is hard to value, hence of higher risk than it should be.

Returns in the scheme's brief lifespan are considered encouraging. Since funds started investing in low-risk debt instruments in July, real returns – albeit before commissions – have averaged more than an annualised 8 per cent, according to Consar.

The total pool of funds as of mid-November was still only around \$700m but industry officials note the yields include the fallout from Asia-related market woes. With almost all eligible workers affiliated, some of the bigger Afores are circling the waters looking for smaller firms to gobble up.

Mr Peters, whose Afore Bancomer is the largest with 1.87m affiliates, says some of his smallest competitors may need fresh capital because advertising and start-up costs have outstripped revenues. They could be potential takeover targets as early as next year. "The question is, are their current stockholders prepared to bet on a second round or will they throw in the towel?"

But benefits for pensioners and the country's fragile national savings rate are not likely to emerge as quickly. Mr Peters says it will be at least 15 years before workers can save enough under the Afores scheme to retire on the proceeds. In the meantime, the government continues to pay a paltry pension.

While public funds are shifted to existing retirees, the net gain in domestic savings is expected to be slight. But Mr Solís of Consar says if all goes smoothly the system could add 1.5 per cent of gross domestic product to savings by 2000.

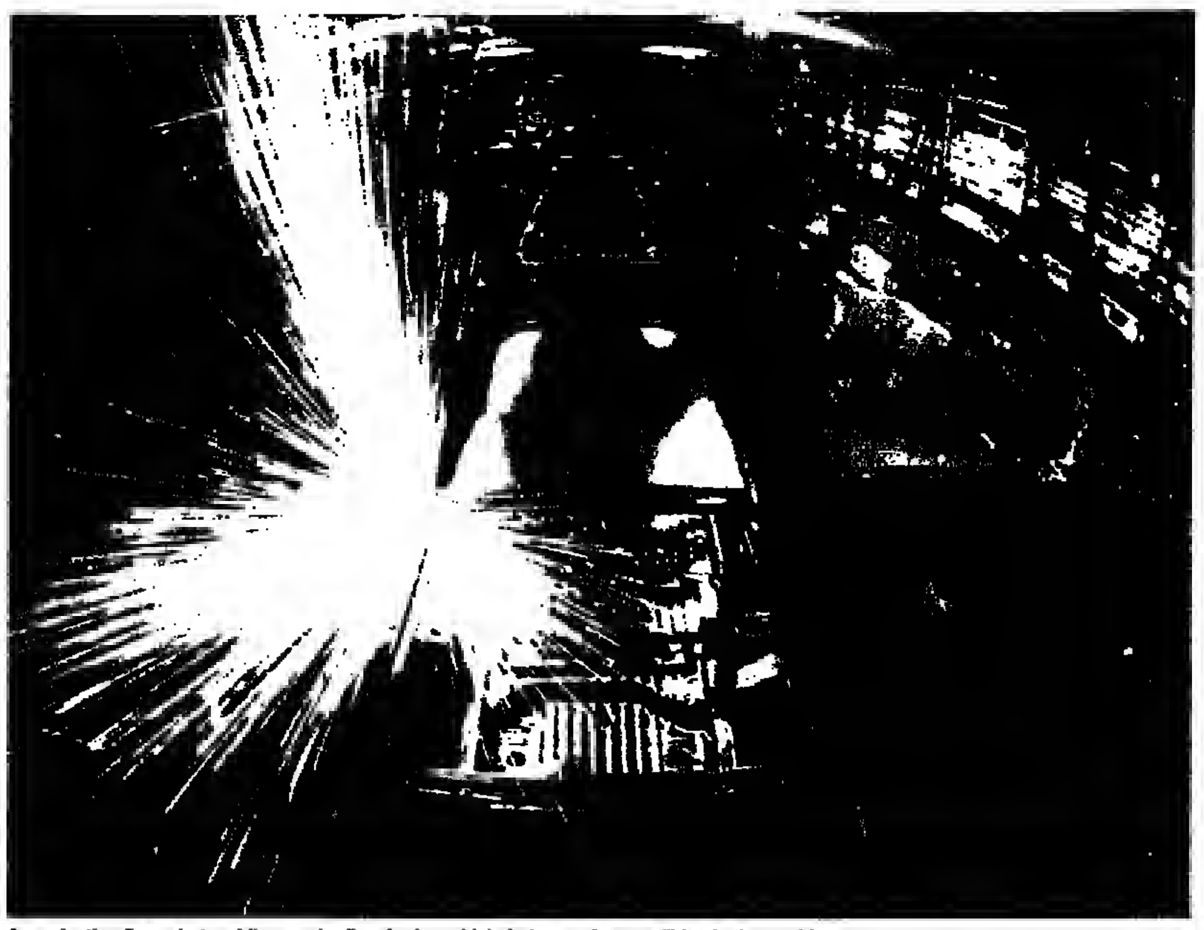
Still, he says, the sector would benefit from further liberalisation.

Currently, the government's Social Security Institute manages disability and life insurance, operates its own Afore and a sub-account for subsidised housing offers low returns. These are all disadvantageous, he says. "The pension system is just one piece of a puzzle. Alone it is not enough."

JAPANESE INDUSTRY

Some sectors of Japan's industry still lead the world with superlative technology – but in other areas, radical restructuring is needed. The outlook for these second-tier companies is grim. **Paul Abrahams** reports

Slowdown has laid bare myth of industrial might



A production line robot welding car bodies: in the vehicle industry, Japan still leads the world

Picture: Tony Stone Images

Has the rising sun stalled? Japan'e corporations were supposed to take over the world. Its economy was supposed to overtake that of the US by 2000. But despite record low interest rates and massive injections of public spending, the Japanese economy remains in the doldrums and its continued weakness has revealed widely differing performances from what was once perceived as an irresistible industrial juggernaut.

Japan's prolonged slowdown has exposed a dual economy. In the vehicle, electronics and machine tool industries, where applied engineering counts and exports matter, Japan still leads the world. But much of the country's industry has been protected from international pressure.

This second tier of Japanese industry has been revealed as hugely inefficient, unwilling to rationalise, and destroying value on e grand scale. Without radical restrncturing, its long-term future must be in doubt.

The immediate domestic environment in which Japanese industry must operate is bleak. Japan is gripped by gloom. Consumer confidence has collapsed. New car registrations in November fell 23.5 per cent year on year – the biggest fall since the early 1970s oil shock.

The result is that the country's gross domestic prodnct contracted 1.4 per cent in the six months to September. Private sector forecasts for this year's GDP growth have been steadily ratcheted down. Most are now at zero or negative. Even the government, which for much of the year has been – at least officially – in denial, now admits that the economy is stalled. The authorities cannot admit that Japan is beading for recession, hut Ryutaro Hashimoto, prime minister, concedes the economy has serious problems.

The reasons for the collapse in consumer confidence are hard to fethom. Initially, the government claimed the deceleration in consumer spending was dne to April's 2 percentage point rise in sales tax to 5 per cent. However, the length and depth of consumer gloom suggests other forces are also at work.

Official data are notoriously unreliable, but real incomes may be falling. Tax increases and cuts in workers' take-home pay caused by reduced overtime and lower bonuses may be the cause.

Moreover, households appear to be saving rather than spending their dwindling real incomes. The failure of institutions such as Yamaichi has led to increased fears of unemployment, even though the official rate of 3.5 per cent appears low by western standards. And well-publicised concerns about Japan's rapidly ageing society appear to be encouraging savings.

This slowdown in spending – combined with cuts in government investment – have hit the corporate sector hard. Earnings growth, which expanded at double-digit retes for the past two years, is set to stall. Brokers Dresdner Kleinwort Benson estimate that earnings growth in the two main sections of the Tokyo Stock Exchange – excloding the tronbled financlal sectors – will actually fall in the six months to March. They predict zero growth at the pre-tax level for next year.

One of the few remaining glimmers of hope has been exports. Driving these exports are the cream of the Japanese industrial system – the vehicle manufacturers, the electronics companies, and the machine tool makers.

With their snperlative technology, unparalleled process engineering, and global strategies – coincidentally boosted by a rapidly deprecieting yen – their export efforts have prevented the economy slipping into technical recession. Vehicle exports in the six months to September rose 29 per cent, with those to Europe up 43 per cent.

However, it is doubtful this export expansion is sustainable. The widening trade surpluses with Europe and the US may become increasingly contentious. And the recent crises elsewhere in Asia may suppress demand from that region. In any case, the economy cannot survive on exports alone – they represent only 9 per cent of GDP.

This leaves the important domestically orientated companies to take up the slack. But the ontlook for these second-tier companies is grim. Typically, they add little value and have been able to charge high prices because they are protected from international competition.

Take the paper sector. With high electricity and wage costs, and little access to cheap wood supplies, Japanese companies can manufacture e tonne of pulp for about $475. In Indonesia, where pulp makers have access to fast-growing eucalyptus plantations, that same tonne costs $250, says Kevin Hebner, strategist at SBC Warburg in Tokyo. "It is cheaper to make finished paper in Canada, than pulp in Japan," he says. Even so, import penetration is just 4 per cent. The main reason is that Japanese paper makers own substantial stakes in paper wholesalers which are curiously unwilling to distribute foreign products.

Such barriers protect a whole range of inefficient sectors, ranging from the oil refinery industry to petrochemicals, glass, textiles, shipbuilding and commodity steel. "Frankly, any Japanese company at the commodity end of a business is destroying value and has little long-term future," says Mr Hebner.

The pressure on these companies is likely to intensify, particularly following the recent turmoil in Asia. Most were relaxed ebout south-east Asia's problems, but the recent Korean crisis is much more significant.

"Asia was not a problem until Korea. A whole raft of industries will be competing with Korean counterparts desperate to offset slack domestic demand through exports – and their prospects will be hugely boosted by the won's depreciation," says Ken Okamura, strategist at Dresdner Kleinwort Benson.

Most companies' main strategy for dealing with this crisis has been to wait for the domestic economy to recover. But this remains a remote prospect. Meanwhile, pressure on them is likely to intensify. Deregulation, though slow, is gradually occurring. A credit crunch is looming, given the banks' need to reduce loan portfolios. Eventually, interest rates, which are at record lows, must rise – something for which most companies are wholly unprepared.

In the face of such pressures, few Japanese companies have achieved much operational restructuring. Even when there have been mergers, the cost synergies have been limited. Job losses are often announced, bnt mostly involve shunting employees into non-consolidated subsidiaries rather than actually reducing overall headcount. One possible method of resolving such problems would be through hostile acquisitions – a prospect that particularly appeals to western investment bankers. Japan does not need 170 pharmaceuticals companies. It does not even need eight car assembly companies. Moreover, argue the bankers, much of the second section of the Tokyo stock exchange is trading at below asset value.

In any normal market, that would trigger frenzied merger and acquisition activity. However, the barriers to hostile bids – even if mostly cultnral – remain buge. Moreover, although cross-shareholdings between Jepanese companies are gradually weakening, the free float in most companies remains limited. Consolidation appears inevitable, but still some way off.

Another prospect – attractive to western investors – is thet Japan's industrial groups should restructure their balance sheets. Many companies regularly over-invest in projects that have negative economic value. This is a functioo of the tax code that encourages low earnings and high cepital expenditure. Share prices are irrelevant to most managements. There is no fear of hostile bids, and share options are only in their early stages. Even though many companies hold net cash, there is little incentive to conclude share buy-backs on any meaningful scale. The top-tier international groups are already investor-friendly.

Western fund managers hope their domestic brethren will follow their example, but their hopes are likely to be dashed, at least in the immediate future.

Japan's current malaise has laid bare the myth of Japanese industrial might. Sections of Japanese industry, buoyed by the best applied engineering in the world, look as formidable as ever. But it has become clear that much of Japaneee industry remains built on the sands of protectionism. Their foundations appear increasingly unsound.

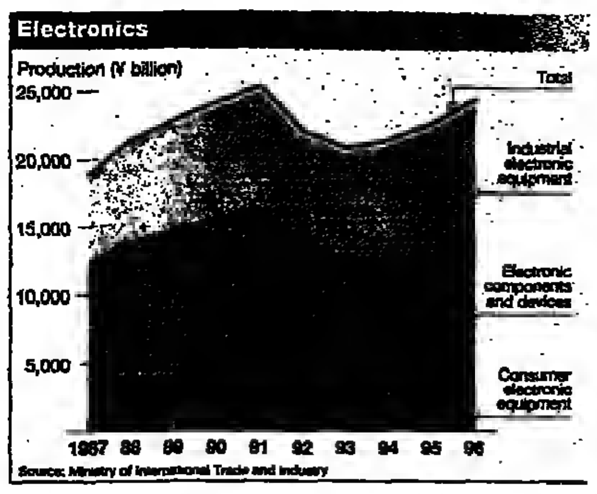
IN THIS SURVEY

Production editor: Philip Sanders

ELECTRONICS • by Stefan Wagstyl

Risks as well as rewards

Recent pressures are creating widening gaps between the electronics groups



Yosbihiro Susuki, head of corporate planning at NEC, the Japanese electronics company, explains his strategy with a flurry of charts, comparing the group with its competitors.

A few years ago, they would have been full of Japanese names ranked by market share. Not any more. Today, Mr Suzuki's comparisons are international and profits, not sales, are the main yardstick.

Even though NEC is operating in some of the world's fastest-growing markets – where demand is growing at 10 per cent a year – it can no longer assume, as it once did, that sales growth would generate profits, more or less automatically.

The same is true for much of the rest of the Japanese electronics industry: Toshiba, for example, has this year switched from assessing investments on the basis of return on sales to the more demanding method of return on equity.

Kozo Wada, a senior vice-president, says: "In the past market share was crucial for us. Now we are not so market-share oriented."

The collapse of Japan's bubble economy of the 1980s has taught Japanese companies to be more careful with their resources. Electronics companies have also been placed under intense pressure from a resurgence of US competitiveness and the expansion of electronics output in east Asia, notably South Korea.

At the same time, the advance of technology means that the cost of developing and producing new products continues to increase – raising the risks as well as the potential rewards. These pressures are creating widening gaps between the performance of the best Japanese electronics groups and the also-rans. The top performers in recent years have mostly been more specialised groups, such as NEC and Fujitsu, in information technology, and Sony, in consumer electronics. Smaller specialised groups have also done well, including Kyocera in semiconductor packages and Rohm, in hard disk drive components.

The traditional giants of the industry – the general electrical groups which produce everything from power stations to cassette recorders – have struggled to keep pace with the leaders. For example, Mitsubishi Electric has forecast that it will report a consolidated loss in the year to next March – its first since the 1960s.

"Specialisation brings success," says Mr Suzuki, NEC's senior vice-president. Some diversified companies retain great strengths. Matsushita Electric Industrial, the largest electronics manufacturer, seems to have the resources to operate on different fronts simultaneously and benefits from the advantage of the biggest production and sales network in east Asia. While the economic turmoil in east Asia will hit local sales, the accompanying currency devaluations will help MEI's competitiveness.

However, in a sign of the times, Toshiba, is steadily transforming itself from a diversified company into a more focused information technology group. Sales of electronic systems and devices, including computers and chips, are planned to rise from 50 per cent five years ago to 70 per cent in 2001. Mr Wada says that the company benefits from the balance of having three divisions in systems and devices, consumer goods and heavy equipment. But the faster growth of IT markets is changing the group's shape.

The companies' diverging fortunes are reflected in the stock market. Sony has risen 50 per cent since the end of 1989, at the same time as the market as whole has fallen some 60 per cent.

Fujitsu, Matsushita and NEC are all down, but within spitting distance of their 1989 levels. However, Hitachi is down 35 per cent, Toshiba 58 per cent and Mitsubishi Electric 70 per cent.

The current stagnation of the Japanese economy has made life more difficult for the electronics industry and could even drive some uncompetitive smaller companies to bankruptcy, but it seems most unlikely to undermine the industry's long-term strengths, above all in product development and manufacture.

As James Abegglen, a veteran Tokyo-based management consultant, says: "We should not forget the industrial strength of Japan when we look at the agonies of the financial sector."

The industry is betting on continued fast growth in personal computers and mobile telephones, particularly in Japan where both products have taken off relatively late. Companies also expect to see the digital revolution develop in earnest by the year 2000 with the spread of digital television broadcasting and the consequent convergence of audio-visual, communications and computing products – both at home and in the office. And finally, they forecast continued expansion in the use of electronics in appliances and other equipment, notably in motor cars.

Already 6 per cent of cars sold in Japan are equipped with electronic navigation systems. The Ministry of Trade and Industry (Miti) expects them to become as commonplace as radios and air conditioners in a few years. But Japanese companies will not monopolise these markets. US companies, despite their fears of a few years ago of a Japanese takeover of the industry, remain pre-eminent in key products, notably microprocessors (Intel) and packaged software (Microsoft).

In other fields, the honours are more evenly divided – for example in laptop computers, where Toshiba battles with top US makers such as Compaq, and in memory chips, where Japanese and South Korean groups are the biggest producers.

However, in other key fields, Japanese groups are clear market leaders – including liquid crystal displays, miniature motors and drives, and a host of other components, plus a whole range of equipment used in electronics production.

Mr Soichi Nagamatsu, director of Miti's electronics division, says competition will not get easier. The prices of staple products such as memory chips will continue to fall over time. Japanese producers will try to focus on higher added-value devices, such as logic chips which combine microprocessors and memories in one unit. But other producers, including American and South Korean companies will have similar aims.

"Electronics is a strategic industry. No one who is in it will easily give it up. Not the Americans, not the Koreans and not the Japanese."

PROFILE Advantest

Formidable market leader

Advantest, the world market leader in semiconductor test equipment, highlights the strength in depth of the Japanese electronics industry.

With a global market share of some 25 per cent, it stands to benefit from the huge investments made by global electronics companies in pushing microchips to ever higher technological limits.

Its biggest competitors – Teradyne and Schlumberger of the US – are formidable, but so is Advantest, with net profits in the year to March of Y24.7bn on sales of Y161bn.

However, the group's progress has been anything but effortless. Founded in 1954 by Ikuo Takeda, an accomplished engineer, the company started by making specialised voltmeters for testing transistors.

In 1974, it ran into serious financial difficulty pioneering semiconductor test equipment just as the Japanese economy was hit by the first oil shock.

The group was rescued by Fujitsu, the computer maker, which took a large shareholding and secured the right to nominate successive presidents, including the current incumbent, Hiroshi Oura, a graduate of Tokyo University's elite law department.


Hiroshi Oura: always on the look-out for new products

With Fujitsu's support, Advantest made a commercial success of semiconductor test equipment. In 1983, the company was floated on the Tokyo Stock Exchange but Fujitsu retained a stake which now stands at 21 per cent.

Mr Oura, who is 63 and has been at the helm since 1989, says the group's competitive strength is staying close to customers, developing its products in co-operation with the customers' research and development departments.

It invests 10 per cent of its revenues in its own R&D, to stay on top of the industry's key technologies.

Advantest is particularly strong in memory chip test equipment, where it estimates its global market share is more than 45 per cent.

Mr Oura says Advantest stole a march over rivals by being the first to develop a machine capable of testing chips at a speed of 250 megahertz; double the previous best.

Although it was launched in June 1996, competitors have still to introduce similar products, while Advantest is preparing to unveil a 1 gigahertz (1,000 megahertz) machine next March.

Advantest is much weaker in the other principal segment of the market, which is for logic test systems, for microprocessors and other control devices.

Mr Oura says the company mis-read the market. In 1990, the prevailing method of testing such devices was to check a chip in stages, because testing it all at once – on a "per pin" basis – was too expensive in terms of computer time. However, Teradyne and Schlumberger developed cheaper per pin testing methods, leaving Advantest struggling to catch up.

In 1991, Mr Oura ordered the company to start developing a per pin system, hoping it would take two or three years. But while the hardware was developed on time, the company's US software laboratories ran into trouble. It was not until 1996 that the problems were solved.

Mr Oura says that although the delay cost time and money there was an advantage – the logic test systems are capable of checking the latest system-on-a-chip devices. However, Advantest has its work cut out gaining sales – its market share in logic test equipment is only about 15 per cent.

Mr Oura is always on the look-out for new products. The company tries to secure 30 per cent of its sales from recently-launched machines. It is also looking at new markets.

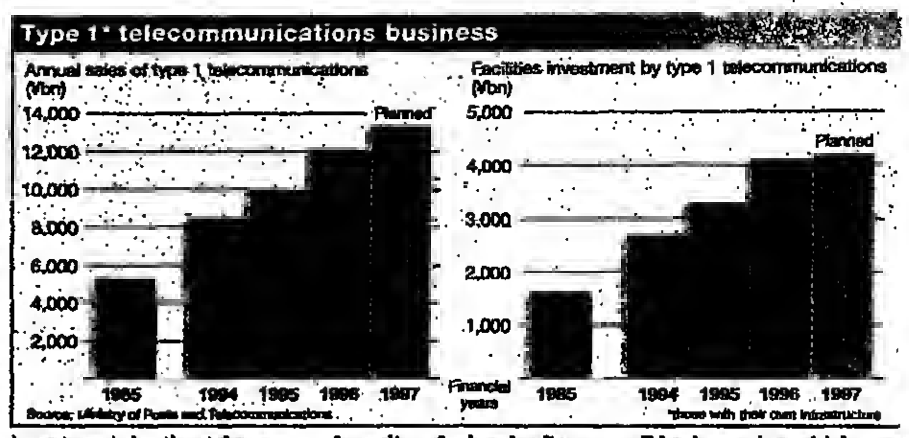
Currently under development is equipment for electron beam lithography – which uses electron beams to etch circuits onto silicon chips instead of light beams, as at present. Mr Oura says this equipment could be ready for launch in 1999, depending on how the market develops.

Stefan Wagstyl

TELECOMMUNICATIONS • by Michiyo Nakamoto

The competition hot-line

A flurry of merger activity has been triggered by deregulation



Japanese companies tend to take a long-term view of business. But in the past year or so, Japan's telecoms industry has undergone important changes at unprecedented speed.

Last month, KDD, the country's largest international carrier, and Teleway Japan, a long-distance operator affiliated to Toyota, announced a merger.

A hurriedly prepared statement by the two companies provided a clear indication of the speed with which Japanese companies are having to move to position themselves for the country's continuing telecoms deregulation.

The announcement was made before most details of the merger – from the proportion of shares investors will receive in the merged company to its new name – were agreed.

The decision by KDD and Teleway to combine forces followed on the heels of another merger between a long-distance domestic operator and an international operator.

In October, Japan Telecom and International Telecom Japan formally merged their operations.

The flurry of merger activity, which is highly unusual in Japan, has been triggered by the telecoms industry's Big Bang deregulation which is set to unleash fierce competition in the market.

Faced with the globalisation of the telecoms industry and the growing importance of telecoms to economic growth, the government abandoned its long-held policy of separating local, long-distance and international telecommunications.

NTT, the domestic carrier which has dominated the local market, is being restructured and allowed to conduct international telecoms business, while KDD and other international carriers have been permitted to enter the domestic market.

The setting of mobile phone rates has been made more flexible, allowing prices to fall dramatically.

The interconnection of leased circuits with domestic public lines was liberated this year and the market for internet telephony was opened up earlier than planned, in August.

By the end of the year, the Ministry of Posts and Telecommunications plans to liberalise the interconnection between leased lines and international networks, paving the way for foreign carriers to expand further in the Japanese market.

Next year, Japan is committed to abolishing all restrictions on foreign investment in the telecoms industry, with the exception of NTT and KDD.

In this whirlwind of deregulation, many Japanese telecoms operators are fighting for survival.

They are faced with the dominance of NTT which generated Y6,371bn in revenues last year. The second largest company is DDI, the long-distance operator, which trails behind with revenues of Y557.8bn, including the company's mobile phone business.

The newly enlarged Japan Telecom, is a midget compared with NTT, with revenues of Y375.9bn. KDD on its own is even smaller with revenues of Y322.5bn last year.

Deregulation may be good for competition and consumer choice, but it threatens to undermine the smaller telecoms companies which do not have the brand recognition, customer reach and R&D capabilities long enjoyed by NTT.

Once NTT begins full-scale international business, it will be able to offer customers seamless, one-stop shopping for telecoms services that will encompass local, long-distance and international services. Competitors who cannot offer at least the same services risk losing customers and, in particular, corporate clients.

The telecoms companies' need to strengthen their competitiveness is driving them into each other's arms and, in turn, consolidating the industry.

Liberalisation of the international leased-line market will add a further dimension to the industry's restructuring as foreign carriers enter the Japanese market in greater force.

In spite of already fierce competition among Japanese carriers, the market is attractive to foreign telecoms operators for its sheer size and growth prospects.

Companies building up their global networks see Japan as a doorway into Asia and a key part of their global strategy. Japanese multinationals are attractive customers and the domestic market, particularly for international calls where rates are still high, is ripe for competition.

Several foreign companies have expressed interest in setting up international leased-line services which would enable them to offer seamless telecoms services at lower prices than now available.

Meanwhile, mobile phones are increasingly eating into the traditional fixed-line market.

The mobile communications market has soared since the MPT allowed four new entrants into the market in 1994 and tariffs were liberalised last year. Subscribers to cellular phones have jumped from about 4.3m at the end of 1994 to 34m – including those to personal handyphone systems (PHS) – as of October this year.

The number of subscribers is forecast to rise to about 60m by the year 2010, according to the MPT.

The impact of growth in mobile communications is reflected in a decline in new telephone subscriptions at NTT this year.

The company attributed the drop to the increase in mobile phones.

New services, such as international call-backs and internet telephony are also expanding. AT&T offers a call-back service which cuts the standard price of calling from Japan to the US to about Y80 per minute, compared with KDD's Y450 for three minutes.

Paul Saferstein, industry analyst at Morgan Stanley in Tokyo, believes call-back services could eventually take about 8 per cent of the international traffic out of Japan. The threat of internet telephony has led KDD to set up its own internet telephone service.

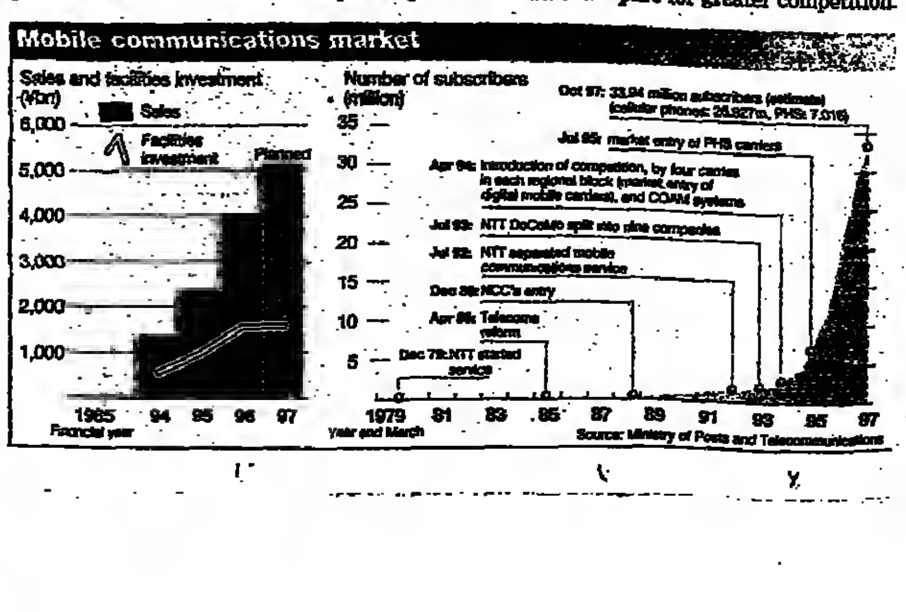
Stiffer competition is helping to lower telecoms rates in Japan, which had been significantly higher than those in the US, for example.

Japan is now one of the most liberated markets in the world and the MPT is keen to promote further competition and stimulate growth in the country's telecoms market. This bodes well for new entrants and those seeking to expand their market share.

Japan, with a market that is expected to be worth Y13,339bn this year, has a high penetration rate of 48 per cent. However, low telecom revenue relative to gross domestic product suggests there is room for growth, notes Toshiho Sato, industry analyst at UBS Global Research.

But, in spite of the huge strides that have been made, NTT still dominates the Japanese market with more than 90 per cent of the local market and about 63 per cent of the long-distance market, according to research by Morgan Stanley in Tokyo.

With NTT set to penetrate the international market, further restructuring can be expected as rivals, both domestic and foreign, prepare for greater competition.



VEHICLES • by Stefan Wagstyl

Weaker groups wilting

Domestic sales have taken a nosedive but exports are up 29 per cent

"Discounting, discounting, discounting. All of us together. It's terrible," says Osamu Suzuki, president of Suzuki Motor, the world's leading manufacturer of subcompact cars.

An expected slowdown in Japanese domestic car sales is rapidly turning into the biggest decline since the 1970s, with monthly sales running at more than 20 per cent below last year's figures.

The industry which had hoped to achieve domestic sales in the year to the end of March 1998 of about the same as last year's 7m units, is now bracing itself for a drop of up to 10 per cent.

Fortunately for the manufacturers, the weak yen has boosted exports, which rose 29 per cent in the six months to September, including a 43 per cent increase in exports to Europe. But fear of trade friction is holding back companies from making the most of opportunities in the US, while in Asian export markets, economic turmoil has forced manufacturers to shred their growth forecasts, particularly in Thailand.

As in other industries, the difficult business environment of the 1990s is creating sharp differences between top performers and other companies. Toyota Motor, the largest manufacturer, has held its ground through its strengths in production, sales and finance. The planned $615m plant in France it announced this month will make only a modest dent in its $23bn cash pile.

Honda Motor, the third biggest producer, has proved the most successful manufacturer of the 1990s, by capitalising on the worldwide surge in demand for RV cars, sports-style recreational vehicles which now account for 50 per cent of all Japanese passenger car sales.

However, Nissan Motor, the second largest maker, has suffered losses in four of the past five financial years. Burdened by heavy debts, it has struggled to keep pace with model development and was late into the RV market.

Mazda Motor fell into severe financial trouble before it was rescued by Ford Motor of the US, its dominant shareholder. And Mitsubishi Motors has benefited from sales of its Pajero car but has suffered from its involvement in a *sokaiya* or corporate racketeering scandal which this year led to the resignations of the chairman and president.

The companies' divergent fortunes are reflected in their share prices. While the stock market as a whole, measured by the Nikkei index, trades some 60 per cent below its 1989 peak, Toyota and Honda are both well up, by 47 per cent and 99 per cent respectively.

By contrast, Mitsubishi Motors is down by 39 per cent, Nissan by 50 per cent, and Mazda by 59 per cent.

Few manufacturers expect any relief from the intense competition. Car companies think that the slowdown in the domestic market is born of a long-term change in consumer preferences, not short-term economic conditions. Executives say that Japanese have lost the taste they developed in the 1980s for new cars. Now they are holding on to their vehicles for longer. As Mr Suzuki says: "The car has gone from being a fashion item back to being a means of transport."

Tadao Takai, executive vice-president of Nissan Motor, says: "Our customers have grown wiser."

Hiroyuki Shimojima, senior managing director at Honda Motor, says that developed country markets have generally reached saturation point. But this has not stopped Honda from preparing to expand production at its UK plant in Swindon, southern England, by introducing a third model.

Nissan, too, is putting a third model into its UK factory, while Toyota is taking an even bigger step with its proposed French plant which will assemble 150,000 small cars a year from 2001.

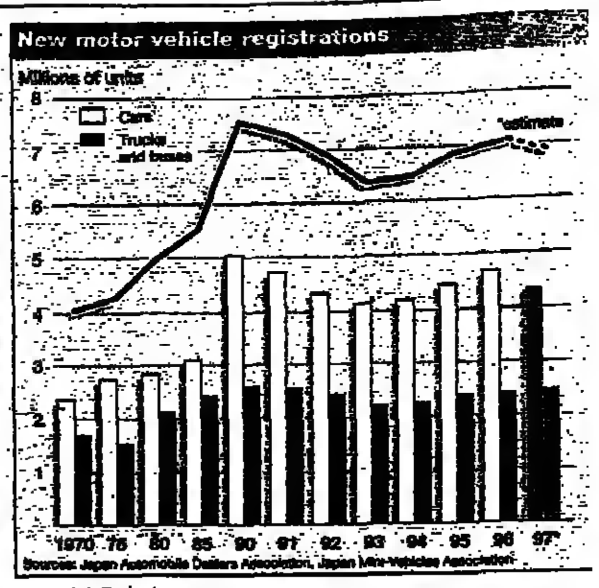
The companies are also investing in developing countries, notably in China, where Honda plans to become the first big Japanese motor group to assemble cars by taking over Peugeot, the French company's, role in a joint venture in Guangzhou. Suzuki Motor is expanding output in Hungary, Pakistan and in India, although it is embroiled in a bitter dispute with the Indian government over the management of its local joint venture. Meanwhile, companies keep a close eye on technological change. The key issue for many executives is to build smaller cars in the belief that concerns about the environment will persuade consumers to turn away from the bigger cars popular today. Honda, for example, is preparing to launch a smaller version of its best-selling RV cars.

Toyota has led the way to electric-powered vehicles with the launch of its hybrid car fitted with both petrol and electric engines. Rival makers think that the car will remain a curiosity because it costs much more to produce than its Y2.5m selling price. But the hunt is on for alternatives to the internal combustion engine.

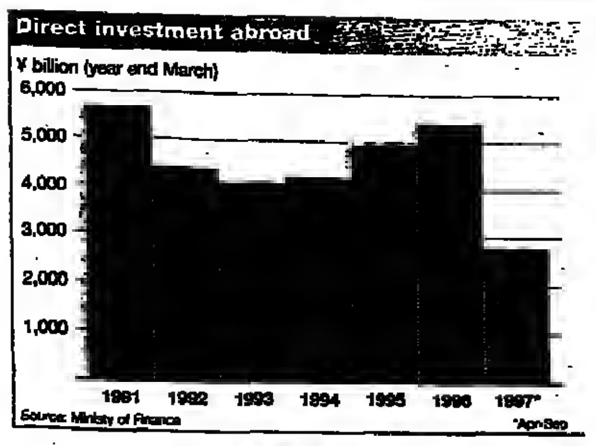
The cost of developing new technology adds to the intense competitive pressures. Questions are periodically raised about whether Japan can sustain 11 motor manufacturing companies.

No mergers are in the offing. But, as Mr Takei of Nissan says, after the collapse of Yamaichi Securities, the fourth biggest securities company, anything is possible. Or as Mr Suzuki puts it: "Every company thinks that some other manufacturer will fail – but not themselves."

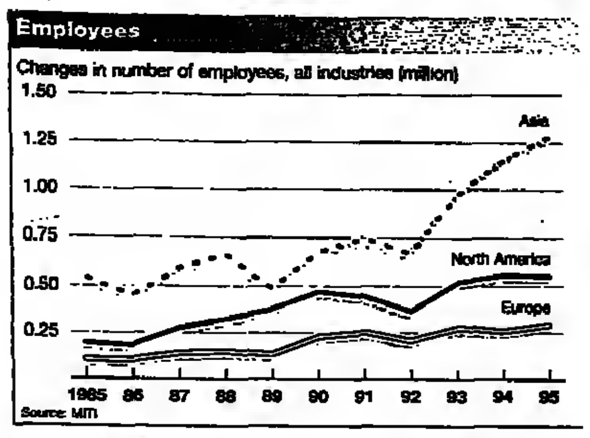
New motor vehicle registrations



Direct investment abroad



Employees



GLOBALISATION • by Stefan Wagstyl

Investment has been at record levels

The top 200 companies are behind 80% of foreign investment

Japanese manufacturers' overseas investment bas been running at record levels, despite tbe stagnation of the domestic economy. And even though it has been hit by the recent economic turmoil in east Asia, Japanese investment on foreign countries is expected to remain strong for the foreseeable future, according to a report published last month by the Ministry of International Trade and Industry.

A moderate declina in investment in east Asia will be more than offset by expected increases in investment in nortb America, where Japanese companies are planning big projects to take advantage of the huoyant US economy.

"In the 1930s, Japanese companies rushed to invest abroad. In the 1990s. tbey are still investing but they are more careful." says Shigeru Hotta, head of the Ministry of International Trade and Industry's International business affairs division.

Total foreign direct investment is still well down from its 1989 peak of Y9,034bn, at Y5,409bn in the year to the end of March 1997, says Miti's sixth annual survey of overseas business activities of Japanese companies. But the decline is accounted for wholly by drops in investment by finance, property and service companies.

Manufacturing investment, which lost ground in the early 1990s, has since recovered sharply, and last year reached Y2,282bn, exceeding its 1989 high of Y2,177bn. When funds raised overseas from retained profits or local loans are added, the increase in manufacturing investment overseas is even more marked.

Total investment last year, including reinvestment, reached a record Y4,011bn, compared with just Y3,108bn in 1989. Investment has been driven by the strength of the yen, which reached Y80 to the US dollar before its decline over the past year, and drove manufacturers to move production overseas.

Companies have also been motivated by a long-standing need to establish production, development and marketing operations near their customers in North America and Europe.

Mr Hotta says these powerful forces acting on Japanese industry have not changed, despite the yen's recent fall. He adds that Japan's domestic financial difficulties have not hit manufacturers nearly as badly as is often supposed.

Big Japanese companies are no longer net borrowers but, overall, have net cash in hand. Smaller companies are suffering from the shortage of domestic credit. But some 80 per cent of foreign investment is carried out by the top 200 companies.

This investment is changing the shape of manufacturing. Whereas overseas production in the late 1980s was less than half exports from Japan, it is now approaching the level of exports and should this year or next exceed exports.

Some 9.6 per cent of total manufacturing ontput was overseas in 1996, double the figure for the late 1980s. This is still well short of the US and Germany, which have about 20 per cent of production overseas, but the Jepanese ratio is expected to rise further. Also, two key industries – motors and electronics – already have higb ratios of 20.6 per cent and t6.8 per cent respectively.

The biggest beneficiaries of Japanese overseas investment in recent years have been east Asian countries. East Asia's importance is somewhat understated in the financial data, which show about a third of manufacturing investment flowing into the region in the 1990s. By contrast, Asia accounts for 60 per cent of overseas employment hy Japanesa companies. It also hosts 57 per cent of all Japanese-owned foreign companies and 78 per cent of companies launched in the year ending March 1996, the latest year for which there is data.

Asian subsidiaries are also far more profitable. In the year to March 1996, Asian affiliates generated Y433.4bn in pre-tax profit on Y12,300bn of sales, according to Miti's report. That gives a profit rate of 4.1 per cent.

By comparison, the figures for north America and Europe were 2.0 per cent and 1.3 per cent.

As Mr Hotta says, a considerable amount of investment in north America and Europe is driven not by the pursuit of profit but by the need to avoid trade friction.

Miti says that the biggest contribinors to high profits in Asia are low labour costs. But labour productivity is also low. In the year to March 1996, Japanese manufacturing companies' workers in Asia outside Japan produced Y1,130,000 per capita, compared with Y3,040,000 in Europe and Y3,970,000 in north America. The most productive were Japanese domestic workers who produced Y5,820,000 per head. However, the drive to invest overseas has only a moderate impact on the management structure of Japanese companies. Mr Hotta says: "Japanese industry says it wants to become more global, but it still has a long way to go."

Even Sony, the company which has made the biggest effort to hire and promote non-Japanese, has no non-Japanese among the executive directors. Companies hire more non-Japanese but struggle to provide them challenging long-term careers.

Shinichi Ueyama, a principal at McKinsey, the management consultancy, says only a handful of very big companies such as Sony, Toyota Motnr and Honda Motor are really interested in making themselves into global companies on the lines of General Motors or General Electric of the US.

Other Japanese companies are mostly satisfied with remaining Japanese in culture, even when they have extensive exports or overseas operations.

For the Sony-type companies, the challenge is to "transform themselves into world companies without losing the spirit of individuality which made them successful in the first place."

CONSTRUCTION • by Gillian Tett in Tokyo

Time for a shake-out

The effects of the property market collapse are still being felt by many companies

Earlier this summer, a small event took place that could mark a milestone in Japan's construction sector. Tokai Kogyo, Japan's 34th largest general construction company in terms of construction sales, filed for bankruptcy with some Y511bn of liabilities.

If this had happened in the West, investors might barely have blinked. But in Japan it marked the first such bankruptcy of a listed construction group since the second world war.

Consequently, it has left a new question lunging over the sector: namely whether the long-awaited shake-out is now finally starting, some seven years after the collapse of Japan's heady 1980s "bubble".

A shake-out is certainly needed. Long after the bubble ended, the sector is still weighed down with the debt hangover this left. It remains dogged by overcapacity. And with Japan's economy apparently stagnating – and the banks who fund the builders themselves under new pressure – the pain is getting worse not better for many construction groups.

This pain has already dented some of the biggest and healthiest groups. When the largest companies issued their interim results recently, many sharply lowered their profit forecasts for the year. Kajima forecast a pre-tax profit of Y22bn, some 12 per cent lower than last year. Obayashi cut its profit forecasts for the year, after recording a 45 per cent interim drop in profits. And Taisei also cut its profit forecasts for the year.

It has also hurt medium-sized concerns such as Hazama and Kumagai Gumi. Although both groups have recently unveiled sweeping restructuring plans, they have seen their share prices plunge.

But it has been the smaller groups where the pressures are most apparent. In August, Tada Corporation, the 50th largest group, followed Tokai into the bankruptcy ranks. Shortly afterwards, Daito Kogyo, the 54th largest company, joined it. And the cull has continued into the autumn, as a host of smaller groups have quietly folded.

The reason for this pain is clear. Many construction companies are still weighed down with bad loans incurred after the property market collapse. These are either held through their own balance sheets, or – more alarmingly – through those of subsidiaries and affiliates. Judging the size of them is difficult. However, in every collapse that has occurred, the total size of bad loans through knock-on collapses has always ballooned dramatically.

On top of this, the business climate is providing little way to tackle the bad loans through profits. Japan's economy has turned out to be far more sluggish in recent months than many economists had expected – although demand was always expected to dip over the summer because of April's consumption tax increase, the stagnation appears to have continued into the autumn.

This stagnation is denting consumer confidence – and in turn dampening any chance of a rapid housing recovery. It is further exacerbated by a steady reduction in recent months in the level of public works spending, as the government tries to reduce its fiscal deficit.

How big these cuts will be in coming months remains unclear. And with the economy stagnating, some economists believe that the government may eventually be forced to take more public spending measures. But the current direction of the political debate suggests that public construction projects may be sacrificed for other pump-priming measures – such as tax cuts. Either way, most recent signals suggest the government is now pondering a cut of some 7 per cent in public works spending in fiscal 1998.

But the most potent blow – and the issue that may now force the shake-out of the sector – is the state of Japan's banks. In previous decades, banks have supported the construction groups according to the traditional Japanese pattern of corporate loyalties. This meant that banks generally continued to provide funds, even if the construction group faced problems – and the companies in question were strongly loyal to their main banks.

However, the banks themselves are now facing a newly competitive climate, as "Big Bang" deregulation looms. Many are heavily weighed down with bad property related loans. Consequently, the banks' support for their ailing construction clients is growing patchier.

Hokkaido Takushoku, which was the main bank for Tokai Kyogo, for example, has since collapsed itself. Nippon Trust Bank, the main bank for Tada, has also recently seen its share price fall sharply – and so had little qualms about letting Tada fail. With the pressure on banks still rising, the list of those who no longer provide such supportive action is growing.

Whether these factors will force a much broader wave of failures now – or a really dramatic shake-out of the sector – remains unclear. Because the construction sector employs about 10 per cent of all Japanese workers, some observers suspect that the government would be reluctant to see too radical a wave of failures. Some banks still do seem to be determined – and able – to support their partners. In August, for example, the Mitsui corporate family rallied around the Mitsui construction groups and organised a bail-out. Fuji Bank also helped to save Tobishima, the 17th largest construction group.

Meanwhile, hopes remains in some quarters that the sector could yet rebound. If the economy picks up next year, then the private housing sector could yet recover.

The government is currently planning to introduce land reform measures into an economic package this month. This will probably ease regulations stipulating what buildings can be built where – and this may trigger a new flood of projects. Meanwhile, the government is also likely to introduce measures that could boost the property market.

But even if – and this seems a big "if" – the sector does rebound, it is unlikely to bring much relief to smaller companies. The market share of the so-called "big four" – Taisei, Shimizu, Kajima and Obayashi – is rising steadily at the expense of smaller groups.

It now accounts for almost 30 per cent of all industry orders, up from 25 per cent four years ago.

Meanwhile, the banks are growing more wary of rolling over loans: according to the Ministry for International Trade and Industry, more than a quarter of all companies report they are facing a new credit crunch.

In the longer term, this may be a good thing: until now the smaller companies in the construction industry, like so much of Japan's domestic industry, have been relatively uncompetitive by world standards. Consolidation, in other words, is badly needed. But in the short term, it could be painful. Either way, it looks set to be a particularly tough winter for Japan's ranks of small builders.

BUSINESS AND INDUSTRY • by Julia Cuthbertson

Adapt or fall behind

Industrialists and business leaders would like to see a bold economic reform initiative

Until recently, Japan's industrialists have provided the only bright spot in a gloomy economy as news from the financial sector has gone from bad to worse. In effect, the country is in recession with gross domestic product shrinking 1.4 per cent in the six months to September, compared with the previous six months.

Of particular concern is the 1.3 per cent quarter-on-quarter decline in exports, previously one of the faw areas for optimism. The decline looks set to continue with carmakers such as Toyota, Mitsubishi and Nissan experiencing setbacks in the US as well as a fall in domestic sales.

Exports have been the main stimulus to growth but are now suffering because of a halt to the decline of the yen and because of the currency devaluations that have followed tha turmoil in south-east Asian financial markets.

Such disappointing figures are putting further pressure on the government to produce a package later this month which will stimulate the economy. April's sales tax rise – aimed at narrowing the huge fiscal deficit – put an end to earlier expansionary hopes.

The outlook has worsened during the autumn as the threat of economic instability has spread from Thailand to Hong Kong and Indonesia. In recent months, most Japanese business leaders have expressed cautious bopes that the government'a economic reform initiative would be bold and broad enough to give a much-needed kick-start to growth. Many felt that the economy was in a "temporary slow-down phase" while on a "recovery path" as a Bank of Japan official put it.

Talking recently to visiting journalists, Dr Shoichiro Toyoda, chairman of Toyota Motors, and of the Keidanren, tha employers' federation, pointed to the need for administrative reform, overall deregulation of the economy and tax reform – specifically a lowering of corporation tax from 50 per cent to 40 per cent – as the main prerequisites for renewal.

"We are trying to make Japan more efficient and dynamic and to make government slimmer than today," he said. "The tendency is to rely on government too much. If that trend continues, Japan will not be viable in future.

"The automobile industry is based on self-accountability with little interference from government. But some sectors are protected. Further deregulation will bring changes [which will mean] Japanese companies will have to face greater competition."

He noted the complementary relationship between many large and small businesses and suggested that flexibility and agility would be essential if start-up companies were to be spawned. Like other industrialists, be argues deregulation should not be allowed to lead to social upheaval in the form of increased unemployment. To prevent this happening, research and development needs to be encouraged and new companies set up.

Mr Masaya Miyoshi, president of the Kezai Koho Centre, the think-tank of the Keidanren, acknowledged the need for change in management styles and in the "workaholic-type capitalism of collective and group loyalty, which be said had gone too far.

"Japanese capitalism lacks a clear-cut sense of corporate governance," he said. "Too much emphasis has been placed on employees, and sbareholders have been ignored. There needs to be more transparency and more legitimate rights accorded to shareholders."

In technology, he said, the use of English as the global standard was hindering Japan, which still manifested a "lingering reluctance to adapt".

This difficulty in assimilating rapid social and economic change, while one of the aspects of Japanese society that make it so harmonious and courtly to an outsider, is another problem. Deregulation will effectively end the system of lifetime employment and seniority, and change the relationship between government and the hureaucracy, as Mr Tadihiro Sekimoto, chairman of NEC outlined. Yet, even a big company can adapt, as NEC has shown, by changing its system to continued employment, which means stable but not lifetime.

As Mr Miyoshi put it: "The system of seniority is changing. Compensation is being reduced for less productive members of sociaty and younger people don't want to wait. As regards work, the Japanese used to say you must wait 10 years for something. Now they say wait one year. The US says wait one week."

Other business leaders take a less sanguine view of the potential effects of the government's deregulation efforts. "Deregulation will not be successful," said Mr Isao Nakauchi, chairman and president to the Daiei department store chain. "Bureaucrats in Japan are too strong and they are protected in law so their numbars cannot just be decreased."

There is some reason to accept this view. Some officials regard reform as a change or adaptation of existing economic regulations to revitalise the private sector. The idea that overpopulated ministries might themselves be part of the problem is not acknowledged. Making rules, providing a framework for business rather than allowing industry a freer rein, seem to be the guiding principles.

The options for the economy as a whole look limited. The prime minister's reputation depends on cutting the budget deficit, currently 7 per cent of GDP, and further devaluation of the yen is unlikely to meet with US approval.

Despite such constraints, industrialists remain optimistic. Many have reason, as they forge into new markets and capture market share from local manufacturers.

Mr Hirotaro Higuchi, chairman of Asahi Breweries, has seen his company take off in China, where Asahi is now bigger than Chinese brewer, Tsing Tao, on the mainland. He is looking to deregulation and reform of the tax system to make Japan more competitive in the global economy. His awareness of consumer trends has resulted in a business thet was last to market becoming quickest to increase sales and develop market share.

Innovation has been crucial: responding to declining whisky consumption and the move away from high-alcohol to low-alcohol drinks in Japan means beer sales are up 36 per cent. Doing business in China has involved changing the traditional way of operating through Japanese trading companies and forming partnerships with overseas Chinese in Singapore, Indonesia and Hong Kong.

"Long-term relationships are the key to doing business in China," Mr Higuchi said. "And with the liberalisation of foreign exchange, companies that had moved to Singapore and elsewhere are coming back and new ones are coming in. That trend will continue."

Mr Nobuo Tateisi, chairman of Omron, one of Japan's leading manufacturers of control components and electronic fund transfer systems, said: "Industrial structure will change hut manufacturing will remain. Manufacturing industry will survive if it continnes to innovate."

It is there that the future must lie if Japan is to flourish as a global economic power and not retreat into a narrow domesticity. New plastics and ceramics, and industries such as biotechnology and environmental waste management could all bring a sustained period of growth. The need to find new production processes to respond to safety and environmental concerns poses challenges for managers everywhere.

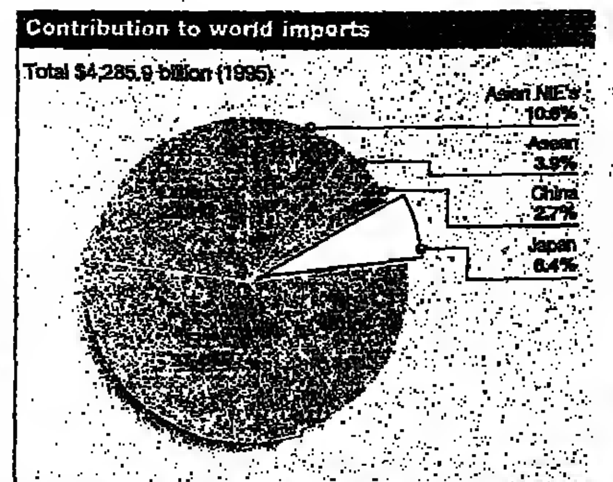
A visionary note was sounded by Mr Ryuzaburo Kaku, chairman of Canon. His concept of *kyosei* – living and working together for the common good – suggeststhe kind of capitalism that Japan's business community aspires to develop.

Japan needs strong business, government and economic leadership, he said, with emphasis on becoming a leading member of the international community, engineering a shift from producers to consumers, from centralisation to decentralisation, and from a knowledge-based society to one founded on creativity and morality.

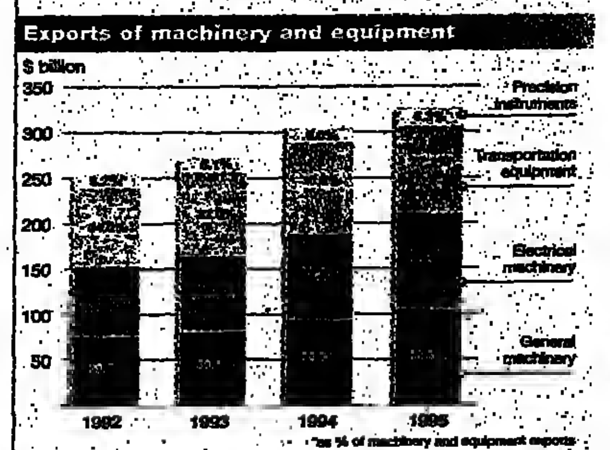
"Private companies have tried to pursue their own interests," he said. "They still tend to be inward-looking. But [employing and utilising] good human resources is the best way for a company to develop and make money. It is time for business to take leadership in making this a better world."

This is not a quick-fix scenario, but one of enlightened self-interest. For industrialists, charting a prosperous path through the economic storm will make it necessary to call upon all their ample resources of capital, nerve and creativity.

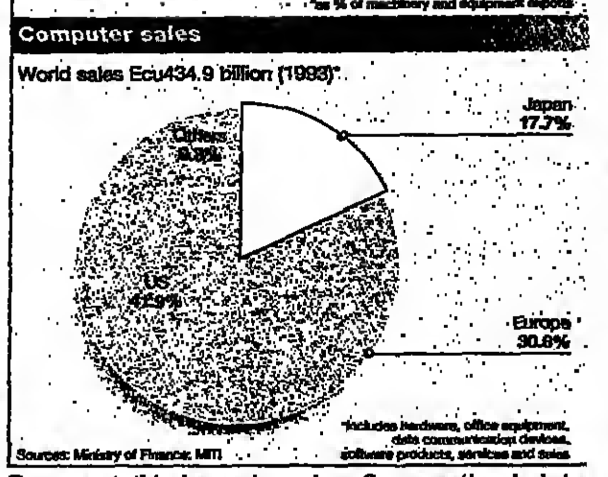
Contribution to world imports



Exports of machinery and equipment



Computer sales



Sources: Ministry of Finance; MITI

DEFENCE INDUSTRY • by Michiyo Nakamoto in Tokyo

Cold wind of change sweeps in

Sector is under pressure to change as the government switches tactics

Ishikawa Seisakusho, a defence contractor, is threatened with losing a large amount of business due to Japan's decision to sign the international treaty banning land mines. The company, based in northern Japan, manufactures land mines to complement its traditional business of making textile weaving machinery.

This is just one example of the cold wind that is blowing through Japan's defence industry. Just as the world's large defence contractors in the US and Europe have faced a significant business decline with the end of the cold war, Japan's defence contractors are finding themselves in an increasingly harsh environment.

For the first time in 43 years Japan's defence budget is expected to be cut – from the Y4,941bn allocated last year.

The country's Defence Agency is also changing its payments policy from a cost plus fee basis to one of paying an agreed fixed price. The move will put pressure on suppliers to reduce costs. The agency is also studying other ways of cutting costs such as buying products off the shelf rather than having equipment specially developed.

The inevitable contraction of the domestic market is particularly hard on Japanese defence contractors who are prohibited from exporting any product that could be used as a weapon. "They are 100 per cent dependent on the domestic market. They can't turn to exports like other Japanese manufacturers," notes Masayuki Mochizuki, industry analyst at Morgan Stanley in Tokyo.

The more difficult environment has resulted in some defence contractors suffering falls of as much as 70 per cent in their business, according to industry estimates.

Nevertheless, Japanese defence contractors have held up well, given the current environment.

For one thing, none of the defence suppliers are heavily dependent on defence orders. Mitsubishi Heavy Industries, the largest Japanese defence contractor, relies on defence orders for just 15 per cent of its revenues.

Defence business comprises just 2.5 per cent of total revenues among the 135 members of the industry association.

Their low reliance on defence spending by the government has helped them weather the gradual decline in the industry.

Indeed, while the overall defence budget has not fallen yet, spending on equipment has been declining since the Gulf War. Japan's $13bn contribution to the western forces led to a gradual reduction in funds allocated to equipment.

In addition to being diversified manufacturers, Japanese defence contractors have been protected by the small, cosy nature of the industry. Competition is virtually non-existent.

"If one company is making a particular product, others just naturally refrain from competing," says one industry official.

Meanwhile, the payment system adopted by the Defence Agency has ensured that defence business is profitable.

The small number of orders for tanks, for example, means some companies might manufacture just one tank. Nevertheless the business is profitable because the Defence Agency pays the cost of developing and manufacturing the product, as well as other administrative costs, plus a fee. Any work, therefore, provides profits, and there is no need to be cost efficient.

Foreign competition is not a big issue either. Foreign defence contractors have been marketing their equipment in Japan but the government is wary of becoming over-dependent on western suppliers.

While the Defence Agency does buy foreign equipment its policy is to sustain a domestic defence industry so that its dependence on overseas suppliers is kept to a minimum. The view is that a heavy reliance on overseas suppliers could cause problems in ensuring supplies during wartime.

Even a reduction in the national defence budget does not lead directly to a sudden drop in orders. The reduction in business tends to be gradual, enabling contractors to adjust personnel and costs in advance.

Against this background, Japanese defence contractors have not imitated their western counterparts and merged operations. The nearest to an M&A deal in the defence industry was the birth of Marine United, a company established by Sumitomo Heavy and Ishikawajima-Harima Heavy Industries to look after their sales and research and development activities.

Nevertheless, the industry is doubtlessly facing pressure to improve competitiveness and even to consolidate.

One of the big changes facing it is the changes to the Defence Agency's payment system.

The shift to a fixed price system – which pays a fixed price regardless of actual costs – will require cost-cutting. As a result it will weed out the weaker, less cost-efficient companies from the more competitive, says Mr Mochizuki at Morgan Stanley.

The large contractors are, therefore, likely to survive the harsher environment while the smaller, subcontractors are unlikely to be able to compete, he says.

"The division of labour system (currently seen in the industry) can no longer be sustained. There will be more orders made to cost-competitive companies."

The changes that defence contractors face may be the first step towards introducing market competition and reducing the burden on the Japanese taxpayer.

But given the industry's size, the lack of real foreign competition and the Defence Agency's policy of maintaining a Japanese defence industry, the transition will be a long-term process.

Shinto priests with the first prototype of the FS-X support fighter, during an unveiling ceremony at Mitsubishi Heavy Industry's plant at Komaki. The largest Japanese defence contractor relies on defence orders for just 15 per cent of its revenues Picture: AP

THE OIL INDUSTRY • by Bethan Hutton in Tokyo

Barriers are being lifted gradually

Deregulation and competition are already making their effects felt within the sector

The barriers protecting Japan's oil industry from domestic and international competition are gradually being lifted.

Deregulatory measures already imposed or in the pipeline are having a substantial impact, but there may be more to come.

The Ministry of International Trade and Industry (Miti), which regulates the oil sector, this month called for a comprehensive review of oil policy by June next year, in order to make the oil industry internationally competitive by 2001.

The transition is not an easy one for Japan's protected oil giants. As in other industries, polarisation is developing between companies perceived as stronger or weaker in the face of competition and deregulation.

In the oil sector, Nippon Oil, the largest Japanese oil refiner and distributor, and General Sekiyu, which is wholly owned by Exxon of the US, seem to be the favoured companies – but even they are not immune from difficult conditions in the sector.

Profitability this year has been hit by a retail price war, particularly in the commuter belt around Tokyo where petrol has been selling for below wholesale cost in some cases.

In October, Japan's petrol prices fell to their lowest levels in 10 years, an average of Y100 per litre. The price competition does not seem to have helped any single retailer to win market share, however, and prices in the most intensely competitive areas are now inching upwards again.

Lower margins on petrol sales are pushing companies into diversifying into a wide range of businesses. Nippon Oil is increasingly interested in power generation and has also announced a link-up with MacDonalds to build petrol stations with drive-through restaurants attached.

Japan Energy runs the am-pm chain of convenience stores, few of which are attached to service stations, while Cosmo Oil has branched out into drive-through dry cleaners.

From April next year, Japan will finally catch up with the rest of the world, and allow drivers to fill their own tanks. Self-service stations have been banned until now, ostensibly for fire safety reasons, but many believe that the real reason was to protect employment in the sector.

The shift to self-service is not likely to take place overnight – many stations use overhead pumps, not suitable for adaptation to self-service, and consumer preferences will take time to adapt.

Also, many of Japan's inner-city filling stations are too small to work effectively on a self-service basis. But in the growing market of large, discount outlets in suburban and semi-urban locations, self-service looks likely to be the way forward.

The change of rules – finalised in November, but hinted at for much longer – is one factor attracting new entrants to the market.

This summer, BP announced plans to enter the Japanese retail market in co-operation with a Japanese regional supermarket chain.

BP's initial plans are for a handful of large suburban outlets to open next year but, if successful, the experiment could be rolled out across Japan and used as a model for BP's expansion throughout Asia.

BP stations will be much larger than average Japanese stations and will include a convenience store, on the model of BP's outlets in Europe and Australia.

All the Japanese oil majors have been consolidating their retail networks. Between April and September this year, the number of petrol stations declined by 511 – but that still left 43,277 in operation. There are still too many stations in the wrong places, so the process is likely to continue for the foreseeable future.

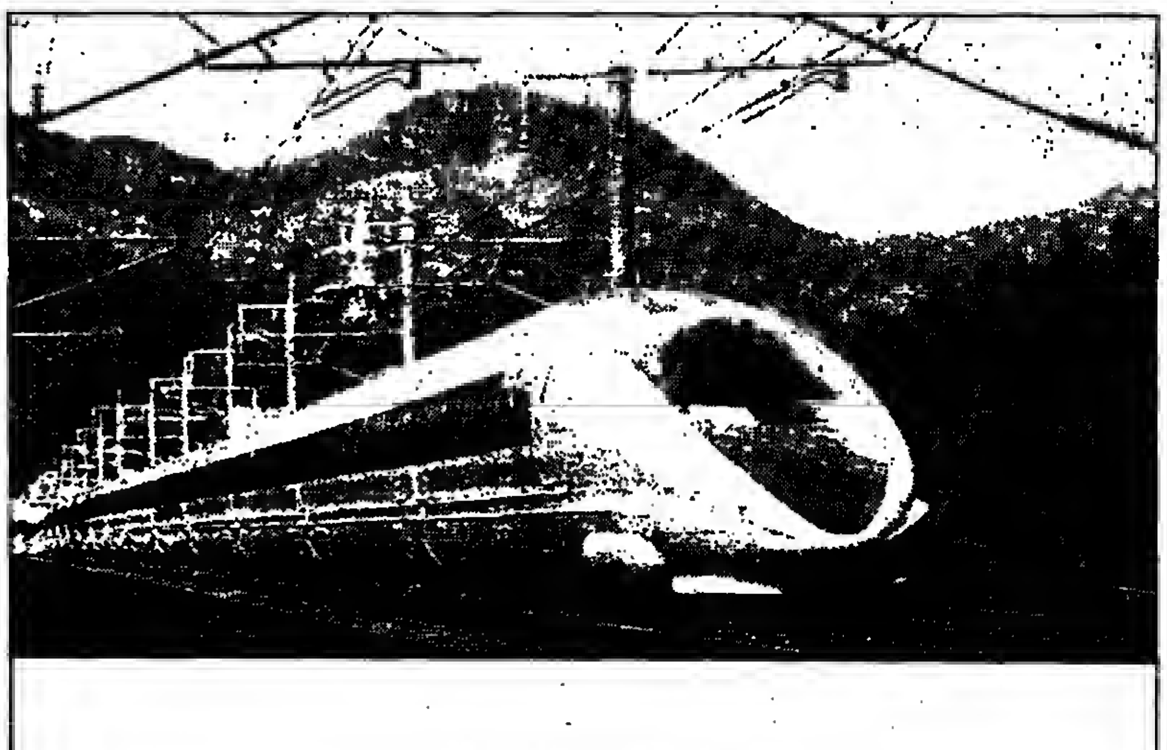
Showa Shell, for example, closed nearly 200 stations in 1996, and has said it aims to close another 400 this year. Like its competitors, it is still opening new outlets in promising locations, however.

There is also more room for consolidation on the refining side. Nippon Oil recently said it planned to shut down one of its smallest refineries, and transfer operations to larger, more efficient plants.

Not surprisingly, there have been some counter-reactions to the increasingly open market competition. Nippon Oil earlier this year banned petrol stations operating under its name from selling products from other refiners, and was soon followed by competitors.

A recent court case has been drawing attention to the fact that the pre-deregulation oil industry was not only inefficient and uncompetitive, it was also corrupt. The inner workings of the oil industry have been on public display during the trial of an oil trader accused of tax evasion – a charge which lifted the lid on a whole saga of pay-offs and suspect relationships linking Mitsubishi Oil with Miti bureaucrats and a host of other companies over more than a decade.

It is too early to say whether deregulation will really be able to stamp out the last vestiges of that type of behaviour. But the increased clarity and competitiveness of the deregulated industry should make it much harder for collusion and corruption to pass unnoticed.



THE STEEL INDUSTRY • by Stefan Wagstyl

Weak yen boosts profits

Improvements in quality, cost cuts, and technological advances are the order of the day

After struggling to break even for much of the 1990s, Japanese steelmakers have this year had an unexpected boost. While domestic markets have stayed flat, the weakness of the yen, combined with strong demand in export markets in Asia and North and South America, has helped the steel companies make their biggest profits since 1991.

Unfortunately, the respite is likely to be short-lived. The economic turmoil in east Asia has put paid to export growth and currency depreciation in Soth Korea will increase the price competition, both in overseas markets and in Japan, where Korean companies will try to increase sales to compensate for the domestic downturn.

After producing some 52.8m tonnes of steel in the six months to September – the highest first-half total since 1991 – producers expect a second-half decline to below 50m tonnes. With the domestic economy weakening, the downward pressure on prices is likely to be acute.

Takeshi Yoshii, executive vice-president of Nippon Steel, the biggest steelmaker, says: "Because of the weakness of the yen, export demand has been good. But now the competition from Korea will become very severe. The domestic economy is stagnant. The politicians must do something to promote consumption."

The companies are responding to these conditions with further cost reductions, quality improvements and technological advances. They are also trying to diversify – although their past record in new businesses has been patchy at best.

The industry has been under pressure since the 1970s, when output peaked in 1974 at 117m tonnes and exports were running at 30m tonnes a year. Through ferocious cost-cutting, producers have maintained output at about 100m tonnes and exports at above 20m tonnes, despite the growth of Korean competition.

The saving grace has been strong economic growth in other east Asian countries, including Korea which has remained until the latest crisis a net steel importer.

However, the economic slowdown in east Asia will now hit Japanese exporters hard, particularly as it coincides with a big planned expansion at Posco, the dominant Korean company, which is set to overtake Nippon Steel as the world's largest steel producer when it brings a new integrated works on stream next year.

Hiromuto Toda, managing director of the Japan Iron and Steel Federation, says that what Japan most needs is a "rapid re-balancing of the Korean economy so that there is stable domestic demand for steel in Korea."

The industry, which has cut 30,000 steelmaking jobs in the 1990s from 190,000, is committed to further cost reductions. Having concentrated on production costs in recent years, the companies are turning their attention to administration and marketing.

Mr Yoshii says Nippon Steel is speeding up decision-making by bringing the production and sales functions together in product categories. But he also says that Japanese customers demand "excessive levels of service" for which they are not always willing to pay sufficient premiums.

Nippon Steel, which is in the middle of its fourth cost-reduction plan since the mid-1980s, is not setting specific cost reduction targets this time. Instead, it is aiming to make pre-tax profits of Y100bn in the year to March 2000, up from Y84.7bn last year, but still well short of the record Y202bn in 1990.

The steelmakers remain committed to diversification, but are not ranging as widely as in the 1980s when they invested heavily in theme parks and leisure centres, often with poor financial results. Today, their main interest is in the recently deregulated wholesale electricity market, in which companies other than power utilities are being permitted to compete for the first time.

Steelmakers, which have long owned in-house power stations for their own use, are leading the way into this market.

They are benefiting both from the 30 per cent or so cut in prices which competition has generated and from the opportunities to sell surplus power. Mr Toda says: "The steel industry welcomes electricity deregulation. It gives us some good opportunities." Nevertheless, the big five companies – Nippon Steel, NKK, Kawasaki Steel, Kobe Steel, and Sumitomo Metal Industries – are likely to remain heavily dependent on steel for the foreseeable future.

To extract more value from their output, some companies are becoming increasingly specialised, such as Kawasaki in engineering steels and Sumitomo in seamless pipes. The companies say that these products, often developed in close consultation with customers, can be sold at better margins than commodity goods and are less susceptible to price competition from newcomers to the market.

The leading companies are also bolstering their finances by generating large amounts of cash, which they no longer need to invest in big new complexes. Nippon Steel, for example, plans to cut its debt by 2000 from Y1,600bn to Y400bn and increase its cash reserve from Y20bn to Y100bn.

This strategy is long removed from the industry's heyday when it borrowed extensively to finance ever-bigger facilities or even from the expansive 1980s. But it is a strategy which should protect the companies from the worst of the pressures they are facing in the 1990s.

Nippon Steel plant: the company is aiming to make pre-tax profits of Y100bn in the year to March 2000, up from Y84.7bn last year

ELECTRICITY INDUSTRY • by Bethan Hutton in Tokyo

Encouraging signs of improvement

Deregulation is under way but the benefits will take time to emerge

Japanese power consumers – both industrial and domestic – have long paid well over international rates for their energy. Deregulatory measures now gradually coming into effect should change that, but as yet consumers have seen little benefit: electricity prices are still 20 to 50 per cent higher than in Europe or the US.

The key innovation to date has been the opening of the market to power suppliers other than the 10 regional electricity companies.

There are encouraging signs that when new opportunities are opened up, companies are quicker to seize them than might have been expected. Since last year, for example, the electricity companies have been obliged to be open to tenders from other companies also generating power which want to sell surplus electricity to the national grid.

Many more companies than expected have taken part in the tenders conducted so far, and their offered power prices were lower than expected. Most of the regional electricity companies could have filled their tenders three or four times over, and more companies have said they plan to make bids in the future.

So far, the process has been dominated by the large steel and chemical companies, but the largest refiner, Nippon Oil, has said it plans to do so in future.

The electricity companies have also been buying in power from other sources, even including private households or small businesses with solar panels generating occasional surpluses.

So far, however, the independent power providers are barred from supplying power directly to end-users.

A move to allow them to do so might achieve more than other measures so far to put pressure on the main power generators to reduce costs to consumers: the cost of power from IPPs can be up to 30 per cent less than from the big electricity companies.

Electricity and gas companies are also seizing new opportunities to move into each other's territories and become all-round energy suppliers.

Kansai Electric Power – one of the largest electricity generators – for example, is considering entering the gas supply market. Kepco already uses liquified natural gas to generate electricity, and is now thinking of expanding from this into supplying households or businesses with gas directly.

Another regional power company, Tohoku Electric Power, is also exploring similar plans in collaboration with Japan Energy, an oil company.

One innovation which was meant to ensure that cost savings were passed on to consumers as quickly as possible has so far had mainly the opposite effect. An adjustment index, based on international prices for raw materials and fuel, together with exchange rates, is now used to determine utility prices. But the recent trend for a weaker yen and higher oil prices mean that consumers have had increases rather than cost savings passed on to them. Cost savings from rationalisation and other measures are slower to emerge, and slower to be passed on.

Greater cost-consciousness is starting to change the main electricity generators' attitudes to their choice of fuel. Japan's coal industry is moribund, and the little coal still produced costs several times the world market price. For largely political reasons, the electricity generators have a longstanding commitment to continue buying domestically-produced coal until early next century – but after that they have already warned the government they will no longer prop up the industry by buying coal at uncommercial prices.

The real benefits of deregulation and commercialisation take longer to work through in Japan for one basic reason: in any other country, such a programme would be accompanied by substantial job losses due to rationalisation, but in Japan compulsory job cuts are still taboo, and overstaffing – a heavy burden on the power companies' cost structure – is therefore difficult to reduce.

Some other cost elements are also difficult to reduce without completely overturning Japan's energy policy.

Japan is heavily dependent on nuclear energy, and has plans to build another 20 nuclear reactors by 2010. The start-up costs of these plants are higher than comparable plants using fossil fuels, but nuclear energy plays a key role both in terms of Japan's planned reductions in greenhouse gas emissions, and also in terms of security of energy supply.

The lessons of the 1970s oil shocks, and the risks of excessive dependence on imported fuel, have been etched into the national memory.

There are also experiments with renewable energy sources, such as solar, wave and wind power, for similar reasons, but so far they have proved costly in relation to the amount of power generated.

There seems little likelihood that Japan's power prices will come down to internationally comparable levels in the near future. But the deregulatory process can only be a good thing for consumers as it gradually creates a more efficiently structured power industry.

Renewable energy sources: geothermal power station control room

BROADCASTING • by Michiyo Nakamoto

Swiftly changing channels

Competition is shaking up the industry and not all will survive the upheaval

Japan's broadcasting industry is facing a period of unprecedented upheaval. The combined forces of deregulation and technological advances sweeping through the industry are transforming a once cosy business environment into a battlefield.

Japan's incumbent broadcasters which had enjoyed a protected market, are having to confront the harsh realities of market competition and come up with a survival strategy.

Until a few years ago, Japan's broadcasting industry was a relatively subdued corporate sector, shielded from competition by regulation which ensured that entry to the Y3,000bn market was strictly restricted.

The Ministry of Posts and Telecommunications, which regulates the industry, embarked on a mission in 1995 to bring Japan's broadcasting industry in to line with its most advanced counterparts in the west. Since then the market has been wide open to new forces that are as unpredictable as previous trends were orderly.

As one industry official put it, "everything we have taken for granted is being turned upside down."

The broadcasting authorities regard opening up the market to greater competition and the early introduction of multi-channel digital broadcasting as essential building blocks for an advanced information and communications society.

To that end the MPT has deregulated markets and brought forward plans to digitise both satellite and terrestrial broadcasting. In a bid to keep pace with digitisation in the west, plans to digitise terrestrial broadcasting have been brought forward five years to 2000, much to the horror of the broadcasters who are being asked to pump billions of yen into doing so.

The ministry sees a dynamic broadcasting industry in which increased competition will trigger a multitude of new services, from internet access and telecommunications to multimedia applications. That in turn, will support growth in the market to a value of Y10,000bn by 2010.

The need to fill the increased number of channels made available by digitisation will also spur international trade in broadcast programmes, the MPT forecasts.

But Japan's established broadcasters have not embraced the ministry's vision of a more vibrant market with open arms. Not only is their protected market under attack, they will also have to come up with viable strategies to ensure they are well placed in the new environment.

Competition has already intensified significantly as the upbeat outlook for the broadcasting sector has encouraged a flurry of activity by newcomers eager to win a piece of Japan's lucrative market.

Foreign operators such as Time Warner and TCI, the US cable operator, Japanese trading companies, electronics manufacturers, and even Toyota, the car company, have taken stakes in new broadcasting service providers.

DirecTV started services in Japan this month through a joint venture between the US company and a Japanese rental video chain company which brought another 100 channels to the market. DirecTV's digital satellite broadcasting service follows the launch of PerfecTV a year ago, with 60 channels. Next year, JSkyB is scheduled to launch yet another digital multi-channel satellite service.

The optimistic view is that such new services will stimulate greater demand for TV and so the market will expand. With terrestrial broadcasters accounting for 92 per cent of the market "there is ample room for growth for non-terrestrial broadcasting media," notes Naoko Ito, industry analyst at Goldman Sachs in Tokyo.

The question is whether there is sufficient demand to warrant the launch of so many new channels and services.

While it is still early days, the expanded market has got off to a bumpy start.

Cable television companies have raised their profiles with the relaxation of rules in the market. Titus Communications was set up in 1995, with investments from leading companies including Toshiba, Itochu, and Time Warner, the US media group. Jupiter Telecom, another CATV operator, was established by Sumitomo and TCI, the largest US cable operator.

Nevertheless, the spread of cable has been a slow, with only 25 per cent penetration in 1995, compared with 61 per cent in the US, according to Ms Ito at Goldman Sachs.

In addition, digital, multi-channel, satellite TV has also been less of a success than predicted. PerfecTV, the first such service to start, fell short of its initial subscriber target of 300,000 households in March 1997.

It had signed up 474,000 households by the end of November, against a target of 500,000 at the end of this month.

Pundits note that JSkyB has the advantage of being jointly owned by the media group News Corporation, which has expertise in the market, Sony, which has technological expertise, a vast software library and marketing clout and Fuji TV, which will provide crucial local programming. But as with DirecTV, the service's launch comes against a background of gloomy growth prospects for Japan.

The risks are considerable, and not only for market entrants who are committed to a long haul.

Established terrestrial broadcasters must also respond if they are to benefit from the changes in the industry.

At the same time, they are confronted with a need to make substantial investments in digitisation in line with the MPT's programme to introduce digital terrestrial TV by 2000.

The problem is that few people expect all new services to succeed in the long run. The consensus is that the market is unlikely to support all three digital, multi-channel satellite services. Competition will become even more severe when digital satellite broadcasting, using broadcasting satellites, starts in 2000.

The broadcasting industry is, therefore, marching inexorably toward a new era of diverse services but there are still considerable roadblocks along the way.